



ROYAL BANK *of* CANADA

1995

Annual Report

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WITH \$184 BILLION OF ASSETS, ROYAL BANK OF CANADA IS CANADA'S LARGEST FINANCIAL INSTITUTION AND NORTH AMERICA'S SIXTH LARGEST BANK. IT ALSO RANKS FIRST AMONG CANADIAN FINANCIAL INSTITUTIONS IN EARNINGS AND MARKET CAPITALIZATION, AND IS FIRST OR SECOND IN SIZE IN ALMOST EVERY TYPE OF FINANCIAL SERVICE IN CANADA, EXCEPT INSURANCE.

The bank delivers a full range of financial products and services to approximately 10 million personal, business, government and financial institution clients through one of the largest delivery networks in the world.

In Canada, the bank has almost 1,600 domestic branches and other units, over 4,000 automated banking machines, nearly 500 self-serve account updaters and 50,000 point-of-sale merchant terminals. Remote electronic access is provided through a national telephone banking service which operates 24 hours a day, seven days a week.

Outside Canada, Royal Bank operates in 35 countries through more than 100 business units, providing corporate banking, investment banking, trade finance, treasury and capital market services to corporate clients. The bank offers private banking services to high net worth individuals in some 26 countries, and also has a long-standing retail franchise in the Caribbean. Correspondent banking relationships extend to 3,500 international banks in some 180 countries.

Full-service investment banking and brokerage services are provided by 73%-owned RBC Dominion Securities, one of Canada's most profitable investment dealers. Discount brokerage services are delivered under the name Action Direct. Royal Trust delivers domestic and global custody, personal trust, as well as private and institutional money management services. The bank's insurance subsidiary provides creditor life and disability, travel and health-related insurance products.

Royal Bank common shares are listed on stock exchanges across Canada, in the United Kingdom, in Switzerland and, since October 1995, in the United States on the New York Stock Exchange. One of the bank's larger shareholder groups is the Royal Bank Employee Savings and Share Ownership Plan which holds approximately 4% of outstanding common shares on behalf of nearly 90% of eligible employees.

THIS REPORT: *We return this year to a single book for our annual report which we present as essentially a financial reporting document. Past reports had given gradually increasing space to those important aspects of the bank that relate to broad corporate citizenship. In response to growing interest in these matters in the community at large, we have prepared a new publication, ROYAL BANK FINANCIAL GROUP TODAY.*

NOVEMBER 1994 New customer-focused management structure headed by six-member Group Office takes effect, providing greater authority and accountability to business, geographic and functional units.

JANUARY 1995 John Cleghorn, President and Chief Executive Officer, is elected Chairman and Chief Executive Officer, succeeding Allan R. Taylor.

MARCH Royal Bank reports record net income of \$319 million for its first quarter.

APRIL Nearly 6 million savings accounts are moved to an enhanced processing system over one weekend, completing a major two-year revamping and simplification of personal accounts.

Royal Bank is chosen Canada's Most Respected Corporation in *The Globe and Mail Report on Business Magazine* survey of 360 chief executive officers of Canadian corporations.

MAY Royal Bank enters into an alliance to bring the "smart" card based Mondex electronic cash system to Canada.

"State of the art" national call centre is opened in Moncton, N.B., and begins rolling out around-the-clock telephone banking in Canada.

Royal Trust is rated fourth best global custodian in *Global Investor* magazine survey, up from eighth the previous year.

JUNE Mutual funds managed by Royal Bank and Royal Trust are brought together under Royal Mutual Funds Inc.

The bank's first fully integrated financial services centre, bringing under one roof the services of Royal Bank, Royal Trust, and RBC Dominion Securities, is opened in Halifax, N.S.

A new Cheque Image Capture and Recognition System, the first in Canada, significantly accelerates the processing of millions of cheques each day.

AUGUST Moody's assigns Bank Financial Strength Rating of B+, its second highest, to Royal Bank, the highest-rated Canadian institution. Of 288 banks rated in the United States, only three received an A.

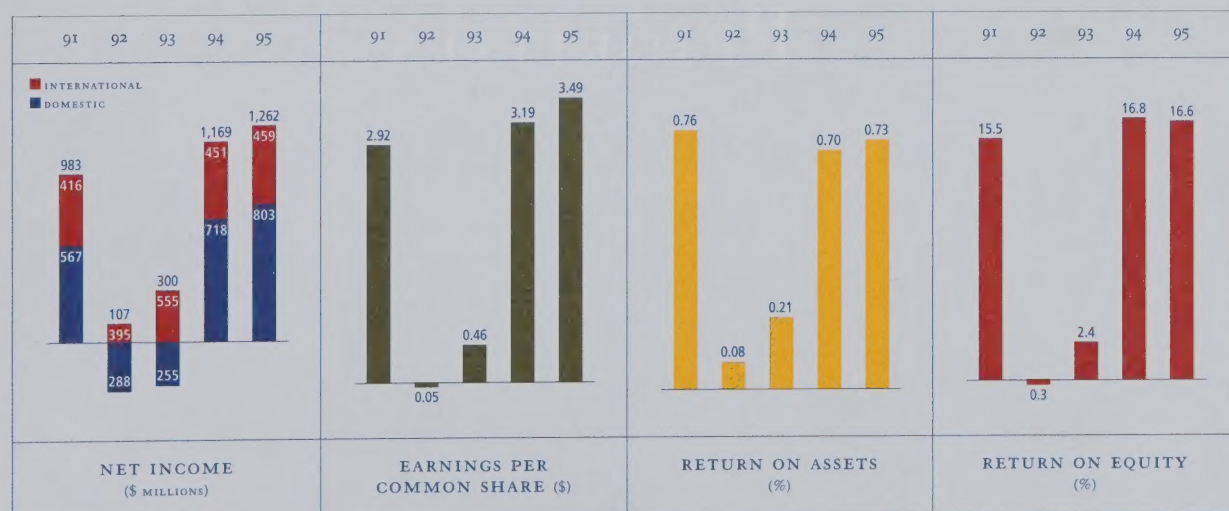
SEPTEMBER Quarterly common share dividend increased to 31 cents a share from 29 cents, effective the fourth quarter.

OCTOBER Royal Bank common shares start trading on the New York Stock Exchange. RBC Dominion Securities' expanded structured equity derivatives service starts trading. Royal Bank ends 1995 fiscal year with record net income of \$1,262 million.

	1995	1994	1993	1992	1991
Earnings Data (For the year ended October 31)					
Gross revenue (\$ millions)*	\$7,297	\$7,369	\$6,524	\$6,066	\$5,760
Provision for credit losses (\$ millions)	580	820	1,750	2,050	605
Non-interest expenses (\$ millions)	4,637	4,639	4,389	3,888	3,588
Net income (\$ millions)	1,262	1,169	300	107	983
Return on assets	.73%	.70%	.21%	.08 %	.76%
Return on common shareholders' equity	16.6%	16.8%	2.4%	(0.3)%	15.5%
Balance Sheet Data (As at October 31) (\$ millions)					
Total assets	\$183,652	\$173,079	\$164,941	\$138,293	\$132,352
Loans	119,577	115,386	116,469	100,137	98,344
Deposits	143,491	135,815	130,399	112,222	105,022
Subordinated debentures	3,534	3,477	3,442	3,127	3,076
Shareholders' equity	9,032	8,589	7,930	7,506	7,762
Capital Ratios (As at October 31)					
Tier 1 capital ratio	6.9%	6.4%	5.9%	5.9%	6.1%
Tier 2 capital ratio	2.9%	3.2%	3.4%	3.3%	3.3%
Total capital ratio	9.8%	9.6%	9.3%	9.2%	9.4%
Common Share Information (For the year ended October 31)					
Shares outstanding (thousands)	314,155	314,155	314,155	314,155	306,460
Earnings (loss) per share	\$ 3.49	\$ 3.19	\$ 0.46	\$ (0.05)	\$ 2.92
Dividends per share	1.18	1.16	1.16	1.16	1.16
Share price – High	31.38	31.88	28.88	29.00	27.50
Low	25.88	25.13	22.00	21.50	20.50
Close – October 31	30.13	28.38	27.25	24.13	27.00
Book value – October 31	22.42	20.13	18.09	18.82	19.91
Number of: (As at October 31)					
Employees – Full-time	40,854	41,215	44,837	42,156	43,273
Part-time	14,867	14,772	15,227	14,593	14,323
Full-time equivalent	49,011	49,208	52,745	49,628	50,547
Service delivery units					
Domestic	1,577	1,596	1,731	1,661	1,645
International**	105	97	95	83	102
	1,682	1,693	1,826	1,744	1,747
Automated banking machines	4,079	3,948	3,981	3,828	3,651

* Taxable equivalent net interest income and other income.

** International service delivery units include branches, representative offices, agencies and subsidiaries.



Our VISION

IS TO BE CANADA'S BEST PROVIDER
OF FINANCIAL SERVICES, AT HOME AND ABROAD,
A GROUP WITH SATISFIED CUSTOMERS, VALUED PRODUCTS AND
SERVICES, CREATED AND DELIVERED BY COMMITTED PEOPLE
WORKING TOGETHER AS A TEAM, TO ACHIEVE
SUSTAINABLE QUALITY EARNINGS.

Our FOCUS

IS ON IMPROVING PERFORMANCE
IN EACH OF OUR BUSINESSES TO ACHIEVE
CONSISTENT AND SUPERIOR RETURNS
FOR OUR SHAREHOLDERS.

Our STRATEGIC PRIORITIES

ARE TO GROW AND DIVERSIFY OUR REVENUE STREAMS,
BE THE LOWEST COST PROVIDER IN EACH OF
OUR CORE BUSINESSES, AND FURTHER IMPROVE
RISK MANAGEMENT.

To Our SHAREHOLDERS

This report documents a year of significant accomplishment for Royal Bank of Canada, with net income reaching a new high of \$1,262 million, an increase of 8% over 1994, itself a record year. Our 1995 results were achieved despite intense price competition, weaker securities markets, and a lack of consumer confidence reflecting current economic uncertainties.

Our FINANCIAL GOALS *have been set with*
THE OBJECTIVE of ENHANCING
SHAREHOLDER VALUE THROUGH
CONSISTENT EARNINGS GROWTH.

After leading all G-7 countries in real growth in 1994, Canada's economy stumbled unexpectedly to a halt near midyear under the effects of a slowing U.S.

economy, higher Canadian interest rates and fiscal restraint. Growth has since resumed and, with the U.S. economy now poised for moderate and steady growth, it is expected to gather momentum into 1996 and 1997.

This outlook, our own strong results and our objective to enhance shareholder value have led us to increase to more aggressive levels a number of our medium-term (3-5 year) financial goals. These goals have been set with the objective of enhancing shareholder value through consistent earnings growth.

We have raised our goal for the return on average common shareholders' equity (ROE) to a range of 16-18% from the previous target of 16%. In 1994 and 1995, ROE exceeded 16%, the best performance of all major Canadian chartered banks. The higher goal reflects the bank's desire to be in the first quartile of the 40 largest North American banks. We have also increased our dividend payout goal to a range of 30-40% from 30-33%. In 1995, our payout ratio was 34%. We raised our quarterly dividend on common shares in this year's fourth quarter to 31 cents per share from 29 cents. Financial goals are discussed in greater detail beginning on page 24.

OUR RETAIL FRANCHISE

Royal Bank's strength derives largely from our leading share of the domestic retail financial services market.

Approximately 75% of our earnings today come from providing banking and related services to individuals and small and medium-sized business customers.

We derive a much higher proportion of our deposits from individuals than do other Canadian banks, a significant advantage as these deposits are more stable than wholesale funds. Similarly, residential mortgages and other consumer loans, which are attractive because of their relatively stable and low loss ratios, represent a much higher percentage of our overall lending than for the other Canadian banks. We have the largest market share of residential mortgages, consumer deposits and consumer loans, and the greatest number of small and medium-sized clients of any financial institution in Canada.

Most of our efforts in the past decade have centred on broadening our financial services franchise with individual and corporate clients. Our acquisitions of Dominion Securities, Voyageur Insurance Company and, more recently, Royal Trust gave us the foundation we wanted as the largest broad-based provider of financial services in Canada, with a strong presence in selected markets abroad.

OUR STRATEGIC PRIORITIES

With this foundation in place, our focus is now on getting better performance from our various businesses and obtaining superior returns for our shareholders. Our strategic priorities are to grow and diversify our revenue streams, be the lowest cost provider in our core businesses and further improve risk management.

RISK MANAGEMENT

Better portfolio quality is reflected in a 33% reduction in problem loans this year and a 29% decline in the provision for credit losses. We have in place a comprehensive and integrated approach to the management of all types of risk, discussed at length starting on page 37. We feel we now have the right structure to weather the next downturn in the economic cycle. Accordingly, we have lowered our goal for provisions for credit losses as a percentage of average loans and bankers' acceptances to .35-.45% from .50%.

LOWEST COST PROVIDER

Operating expenses are discussed beginning on page 32. In 1995, non-interest expenses stayed at the previous year's level. This included a reduction in domestic occupancy costs, reflecting a more streamlined branch network. As customer acceptance of alternative delivery channels such as telephone banking grows, we will continue to reduce the number of branches and reconfigure the network to be more responsive to our customers.

Our 3-5 year goal for productivity, measured by the ratio of non-interest expenses to total revenues, is 58%. Our performance in 1995 was 63.5% and the gap must be closed.

We expect each of our businesses to benchmark their performance against their most efficient peers in North America and to quickly take the necessary steps to close any gaps.

Major initiatives under way to reduce our cost base include strategic sourcing, core process reviews and functional reviews. Strategic sourcing entails examining and addressing our \$1.1 billion base of goods and services purchased. Core process reviews examine all the processes that deliver products and services to some of our larger business units. Functional reviews are intended to reduce redundancies and inefficiencies in functional groups. We expect all of these initiatives to result in savings of more than \$200 million over the next three years.

Through enhanced productivity, we intend to free up our resources for reinvestment in those businesses and networks that will generate future growth and profitability for the bank.

REVENUE GROWTH AND DIVERSIFICATION

Revenue growth and diversification will be achieved by strengthening the traditional consumer businesses, by expanding fee-based businesses, and by selective international growth, particularly in the United States. Special attention will be given to client retention in today's highly competitive environment.

We will grow our consumer revenues by generating additional business from our existing customer base, developing and marketing products in innovative ways, and making a strong sales and service effort.

We have identified 250 high-potential branches for special revenue generation programs. Of these, approximately one-third will be financial services centres combining the capabilities of the bank, Royal Trust and RBC Dominion

Securities. Currently, 16 such pilot sites are bringing together these members of Royal Bank Financial Group to provide greater value to affluent customers.

Technology-based service delivery will play a key role in helping meet customer expectations. The opening of our "state of the art" national telephone banking centre in Moncton, N.B., in May, our alliance to bring the Mondex electronic cash system to Canada in 1997, following a trial next year in Guelph, Ont., and our introduction this year to Canada of electronic cheque image capture and recognition are key developments in this regard.

In November, after the close of our fiscal year, we entered into a strategic alliance with four major U.S. banks and a leading U.S. provider of financial software to provide financial services to individuals and small businesses by personal computer. National roll-out of the service, which will link directly to the bank's host computer in a secure and private environment, is expected in late 1996. The service will allow customers to pay bills, update accounts and manage their finances by computer

WE AIM *to* BECOME *one of* THE TOP 20 TRADE FINANCE BANKS *in* THE WORLD *by* THE END OF THE DECADE.

around the clock from their home or place of business. It will give users up-to-the-minute account information and dozens of features that can be custom-tailored to track household expenses and manage loan and investment portfolios.

Fee-based consumer businesses with the greatest opportunities for expansion include insurance, wealth management, mutual funds and retail brokerage. In addition, business banking and financial institutions and trade hold prospects for further growth and increased profitability. Trade finance, highly important for the Canadian economy, offers excellent potential and we aim to become one of the top 20 trade finance banks in the world by the end of the decade. Our trading business generates solid returns and is also expected to grow.

We will grow steadily but more slowly in international markets until we find a suitable acquisition in the United States, our No. 2 target market after Canada. Our common shares began trading on the New York Stock Exchange in October and we would like our U.S. share ownership to grow to 10-15% of the total over the next 3-5 years from the current 4%. In that time, we aim to increase U.S. earnings by expanding our existing base and making acquisitions that enhance shareholder value.

**REVENUE growth and
diversification** WILL BE ACHIEVED
by STRENGTHENING THE TRADITIONAL
CONSUMER BUSINESSES, *by* EXPANDING
FEE-BASED BUSINESSES, AND *by* SELECTIVE
INTERNATIONAL GROWTH.

INVESTMENT PRIORITIES

Our growth and diversification plans require careful investment. Our spending and investment priorities will focus primarily on:

- retaining profitable customers and growing our share of business with them,
- continuing to broaden the breadth and depth of our Canadian franchise,
- developing our alternative delivery networks,
- expanding our capabilities in the United States,
- accelerating cost reduction – particularly in low-value-added processes,
- supporting research and development and the implementation of technological and other innovations, and
- developing our people to ensure that we have the right balance of intellectual and competitive capability.

A NEW WORK PARTNERSHIP

We owe our strength and success ultimately to our 49,000 employees, most of whom as shareholders and customers have a triple stake in the bank.

Like employees everywhere these days, they are feeling the demands and uncertainties of changing times. We monitor employees' attitudes to their work and to the bank in several ways including a thorough periodic opinion survey. In 1995, there was a significant improvement in the attitudes of employees. When compared with the results for a number of North American benchmark companies that

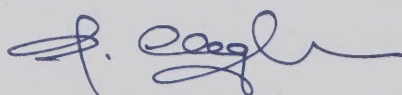
Through **ENHANCED
PRODUCTIVITY,** WE INTEND *to free up*
our **RESOURCES FOR REINVESTMENT IN**
THOSE BUSINESSES AND NETWORKS
THAT will generate **FUTURE GROWTH**
AND PROFITABILITY FOR THE BANK.

perform well financially and that are generally good places at which to work, the bank was rated higher than average in 1995 in most survey categories.

An initiative called Workplace 2000 is helping employees understand and share in defining a new work partnership. As part of this emerging partnership, built on past values and strongly focused on learning and open communication, individual contributions and rewards are being aligned more directly with strategic goals and business priorities.

Higher levels of employee satisfaction and rewards tied to corporate goals should lead to enhanced customer satisfaction, improved cost management and higher profitability.

Our focus is on securing consistent, superior returns for our shareholders and all our initiatives are undertaken with that goal in mind.



JOHN E. CLEGHORN

Chairman & Chief Executive Officer

How We've Grown: GENERAL DEVELOPMENT of THE BUSINESS

IN RECENT YEARS, THROUGH LEGISLATIVE CHANGES AND ACQUISITIONS, ROYAL BANK HAS TRANSFORMED ITSELF FROM CANADA'S LARGEST LENDING AND DEPOSIT-TAKING INSTITUTION INTO A PROVIDER OF A BROAD RANGE OF FINANCIAL PRODUCTS AND SERVICES.

Following financial sector reform in 1987, which gave banks the right to own investment dealer subsidiaries, the bank acquired Canada's largest investment dealer, Dominion Securities, in 1988. Renamed RBC Dominion Securities, this subsidiary strengthened its presence in Western Canada and Quebec through the acquisitions of Pemberton Securities in 1989 and McNeil Mantha Inc. in 1991, respectively.

With further regulatory changes in 1992 permitting banks to own insurance and trust companies, Royal Bank entered the travel insurance field through the acquisition in 1993 of Voyageur Travel Insurance Limited, Canada's largest supplier of travel insurance to the retail insurance market. Also in 1993, the bank bought the principal Canadian operating subsidiaries and certain international units of Gentra Inc., formerly Royal Trustco Limited.

The Royal Trust acquisition has greatly enhanced the bank's fee-based operations, particularly mutual funds and investment management and custodial services.

Mutual fund assets have risen from \$1.1 billion at the end of 1990 to \$11.8 billion at October 31, 1995. Over the same period, personal and institutional assets under management, excluding mutual funds, have grown from \$3 billion to \$29 billion. Institutional and personal assets under administration in the securities custody business now total \$395 billion, up significantly in the last five years.

These trends have allowed total fee-based income to rise to 35% of the bank's revenues, from 31% in 1990, despite a freeze in service charges through most of this period.

Royal Trust has also contributed to higher international fee income through its global private banking and custody operations. This, combined with the bank's higher foreign exchange and trading revenues, has allowed international other income to rise from \$300 million in 1990 to approximately \$600 million in 1995.

Intensifying competition has increased the importance of being a low-cost producer.

Since 1992, the bank has streamlined its branch network and made greater use of alternative service delivery channels such as automated banking machines, debit cards and, more recently, telephone banking. The Mondex "smart" card will be pilot tested in 1996 and, if successful, launched nationally in 1997.

Following the effects of the last recession, the bank has focused on strengthening its risk management. Industry and borrower concentrations have been reduced, forward-looking client strategies developed, and exposures to weaker borrowers lowered. A strict focus on profitable, high-quality loans has contributed to relatively slow growth in business lending over the last 2-3 years.

In the consumer market, the bank has grown its residential mortgage portfolio from \$26 billion in 1990 to \$45 billion in 1995, and increased consumer deposits from \$61 billion to \$90 billion over the same period. The bank has the largest market share of residential mortgages, consumer loans and consumer deposits among all financial institutions in Canada.

COMPETITION

Financial reform and free trade have led to more intense competition within Canada's financial services industry, resulting in greater pressure on margins and a growing emphasis on cost control. This competition is not restricted to Canadian banks, but includes trust companies, securities brokers, insurance companies, mutual fund providers and investment management firms. It also encompasses a growing number of U.S. financial institutions with operations in Canada, as well as a number of non-financial institutions which have employed new technologies to deliver traditional banking products and services.

The bank competes with the above-mentioned institutions primarily on the basis of products, pricing, geographic markets served, distribution channels employed and quality of services delivered. Market share and client satisfaction are some of the yardsticks used to measure the bank's performance against the competition.

ROYAL BANK *Corporate* STRUCTURE: *an* INTRODUCTION *to the* ELEVEN BUSINESSES

RAPID CHANGES IN GLOBAL MARKETS, COMBINED WITH THE INCREASING DIVERSITY AND COMPLEXITY OF THE BANK'S OPERATIONS, PROMPTED US TO REVISE OUR ORGANIZATION STRUCTURE AT THE END OF 1994. THE NEW, FLATTER STRUCTURE HAS INCREASED SPEED AND FLEXIBILITY IN RESPONDING TO CHANGING CUSTOMER NEEDS AND EXPECTATIONS, ALLOWED SENIOR MANAGEMENT TO FOCUS ON LONG-TERM, STRATEGIC ISSUES, AND GIVEN MORE AUTHORITY AND ACCOUNTABILITY TO INDIVIDUAL BUSINESSES.

At the top of the management structure is the Group Office. Chaired by the chief executive officer, this group includes the four vice-chairmen and the chairman of RBC Dominion Securities.

The Group Office, which usually meets weekly, takes a global view of the entire Royal Bank group of businesses, making decisions collectively about long-term growth opportunities. Its focus is on ensuring the most productive use of resources by undertaking those projects that present the best growth opportunities and have the greatest potential for increasing shareholder value.

The Group Office members, together with the heads of eleven businesses, twelve geographic units and a number of specialized functional groups comprise a 33-member Group Council, which meets quarterly to resolve strategic, financial, service quality and human resource issues.

The eleven business groups have replaced the previous five large divisional umbrellas. The heads of these groups are fully accountable for the bottom line performance and strategic direction of their businesses. Their efforts are geared to meeting specific financial and strategic targets, approved by the Group Office and the Board of Directors, through a focus on product development, marketing and management of distribution channels.

In addition to receiving support and guidance from Group Office members, the business heads also work closely with the bank's fourteen geographic units (nine domestic and five international) in segmenting markets and developing targeted business plans. These geographic units, which also report directly to the Group Office,

have responsibility for customer service, sales, cost and resource management, market share and profit margins in their regions.

The discussion that follows provides an overview of our service delivery network and of each of the bank's eleven business groups, including their products and services, key developments in 1995 and future outlook.

The first five businesses – Personal Financial Services, Residential Mortgages, Card Services, Insurance and Mutual Funds – provide services to individuals, largely in Canada. The next two, Royal Trust and RBC Dominion Securities, provide services to both individuals and businesses in Canada and abroad. The final four businesses are Trading, Business Banking, Multinational Banking and Financial Institutions and Trade. Business Banking serves the Canadian market, while the other three businesses have a significant presence outside Canada to complement their domestic service capabilities.

THE DELIVERY NETWORK

Royal Bank had 1,577 domestic service delivery units at October 31, 1995. These consisted of 1,318 retail branches, 99 Royal Trust branches, 27 trust locations, 27 private banking offices and 106 business banking centres. The bank also operates 105 international service delivery units in 35 countries.

In addition, 73%-owned RBC Dominion Securities has 172 offices, of which 74 are located on bank premises. The bank's discount broker, Action Direct, has seven offices. Royal Bank also has six international trade centres across Canada.

A force of 500 mobile sales representatives provides service in homes and offices principally for retirement and investment products and residential mortgages. The bank's extensive network of 4,041 automated banking machines in Canada, the largest in the country, continues to complement the branch network.

Outside Canada, the bank operates a growing consumer banking franchise in the Caribbean with 54 units and 38 banking machines, as well as an extensive private banking network in Europe, Asia, the United States, the Caribbean and South America.

REVIEW OF 1995

Royal Direct, the bank's telephone banking service, was introduced across the country in 1995, enabling customers to pay bills, transfer funds, receive account information and make payments on loans and mortgages. This national telephone banking centre in Moncton, N.B., attracted over 300,000 customers in the first few months.

The Personal Financial Services group began piloting new branch configurations in large urban centres, including markets where existing branches have been rationalized. The layout and services provided in new branches is based on customer feedback in each specific market. RBC Dominion Securities' investment advisors continue to play an increasing role in Royal Bank and Royal Trust branches to serve customers' complete financial management needs.

GOING FORWARD

The network of the future is being reshaped to keep pace with changing technology and the delivery preferences of customers for anywhere, anytime access to the bank.

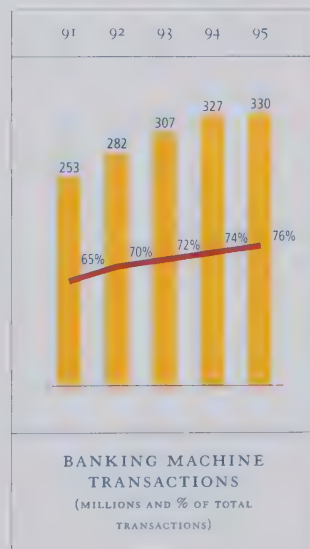
Alternative distribution channels such as telephone and PC banking and mobile sales representatives are responding effectively to the changing needs of customers by complementing the traditional branch network at lower cost. The number of telephone banking customers is expected to grow significantly over the next few years. PC home banking and screen phone telephones will be introduced on a pilot basis in 1996. As acceptance of these alternative distribution channels grows, the bank will further streamline its branch network.

The bank will also expand the functions of its banking machines, thereby offering customers a wider array of services and convenience through this extensive network.

1,577 DOMESTIC AND
105 INTERNATIONAL SERVICE
DELIVERY UNITS.

4,079 AUTOMATED
BANKING MACHINES.

NATIONAL TELEPHONE
BANKING SYSTEM OFF
TO QUICK START.





PERSONAL FINANCIAL SERVICES

MORE THAN 150 PRODUCTS AND SERVICES FOR INDIVIDUAL CUSTOMERS.

HIGHEST SHARE OF CONSUMER DEPOSITS ENTRUSTED TO CANADIAN FINANCIAL INSTITUTIONS.

HIGHEST SHARE OF PERSONAL LOANS MADE BY CANADIAN FINANCIAL INSTITUTIONS.

Royal Bank offers more than 150 products and services to individual customers in Canada. The Personal Financial Services group manages several consumer banking products and supports the delivery of residential mortgages, credit and debit cards, creditor and travel insurance and mutual funds which are provided by other bank business units.

Deposit instruments include savings accounts, chequing accounts and term deposits, as well as some government-based deposit instruments which are sold for a fee, such as Canada Savings Bonds and Treasury Bills. Credit products include consumer installment loans, personal credit lines and student loans. A full range of fee-based services such as discount brokerage, foreign exchange, payment services, travellers cheques, and wire transfers are also sold.

The bank's market share among all Canadian financial institutions was 17.1% for consumer deposits and 16.3% for personal loans at the end of 1995. In both cases, the bank has the highest market

share among Canadian financial institutions. Action Direct, the bank's discount broker, is the second largest player in the market with a market share of approximately 15% of clients and assets under administration. With more than 125,000 customers, Action Direct had over \$2.1 billion in customer assets at the end of 1995.

The personal financial services market is intensely competitive on both price and service, and new competitors continue to emerge.

REVIEW OF 1995
New service standards were introduced across the network and customer satisfaction and loyalty is being measured and tracked by each delivery unit.

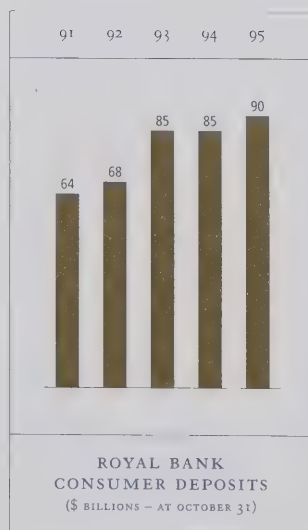
Through process reviews, the Personal Financial Services group continued to streamline activities and take back office administration from branches, freeing frontline staff to focus on clients and build client relationships. National sales calls, weekly sales routines and enhanced sales skills have been introduced to improve sales capability and effectiveness.

Nearly 6 million deposit accounts were converted flawlessly to a new system as part of an ongoing program of systems upgrades to provide more flexible and timely product changes and introductions.

GOING FORWARD
We are building a state-of-the-art marketing database capability to enhance our sales effectiveness and to match the needs of our customers with the right products, delivery channels, service and pricing. This is being developed with the commitment to establish and maintain appropriate privacy codes to safeguard customer information.

Staff continue to receive training and technology support to enable them to spend more time anticipating and responding to customer needs, particularly the increasing demand for financial and investment guidance.

Further product, service and processing redesign will continue to enhance our ability to service clients effectively and efficiently.



RESIDENTIAL MORTGAGES

At \$45 billion, Royal Bank's residential mortgage portfolio is the largest among Canadian financial institutions. The portfolio is primarily domestic and is primarily comprised of fixed rate mortgages with terms ranging from 6 months to 25 years. The most common terms chosen are between 6 months and 5 years. Customers are offered a variety of payment options combined with service features such as multiple delivery channels.

Mortgages are sold mainly by personal bankers in branches across Canada but in the past two years non-traditional delivery networks have been established in response to customer needs. In 1995, the number of mobile sales representatives in large urban centres exceeded 200. Customers can also obtain information and make mortgage applications through the new national telephone service, Royal Direct.

The residential mortgage business is also an important builder of customer relationships. Over the last five years, residential mortgages have averaged 35% of the bank's total loans and stood at 38% at year-end 1995, the highest such ratio among Canadian banks. Moreover, the business is characterized by a low loss ratio which averaged .1% for Royal Bank in the past five years and was .1% in 1995.

Market growth is driven by the demand for new houses, resales and renovations, which are in turn influenced mainly by general economic conditions and interest rates. Competition in the business focuses on price and on product and service attributes.

REVIEW OF 1995

For the second consecutive year, higher interest rates and weak consumer confidence restricted mortgage growth in Canada. With weaker demand, several competitors were aggressive in offering potentially costly extended rate guarantees, particularly in the builder or new housing market, thus limiting the bank's opportunities to add residential mortgages.

While maintaining its focus on profitability and portfolio quality, Royal Bank responded successfully to the tough market conditions through more personalized service and by making careful use of rate commitments and price flexibility. Total mortgage volume increased and the market share erosion experienced in 1994 and in the first half of 1995 appeared to have stabilized by year-end. Royal Bank's market share of all Canadian financial institutions is 14.0%, the highest in the industry.

GOING FORWARD

In determining its competitive stance, the bank weighs market share opportunities against risk considerations with the objective of maintaining the profitability of the residential mortgage portfolio.

Royal Bank research shows that needs vary among customers and that mortgages are not simply a commodity sold on price. Market segmentation, the satisfaction of customer needs through a combination of product and service features such as the quality of advice, as well as consideration for the overall relationship, are as important to the bank's strategy as rate commitments and pricing.

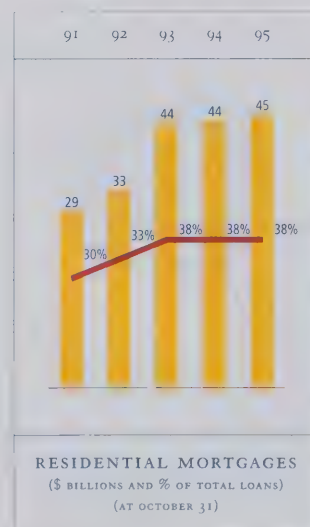
In 1996, the bank will focus on first-time home buyers and on mortgage renewal and growth opportunities with existing customers. In the builders' market, the bank plans a more active presence as well as enhanced sales support through service and product information on building sites.



\$45 BILLION PORTFOLIO IS LARGEST AMONG CANADIAN FINANCIAL INSTITUTIONS.

LOAN LOSS RATIO AVERAGED .1% IN PAST FIVE YEARS; WAS .1% IN 1995.

MOBILE SALES FORCE AND NATIONAL TELEPHONE SERVICE COMPLEMENT WORK OF BRANCH STAFF.





SERVING 5 MILLION CREDIT CARDHOLDERS AND 6 MILLION DEBIT CARDHOLDERS.

SALES VOLUMES PROCESSED BY DEBIT CARD UP 141% IN ONE YEAR.

CARD SERVICES

Royal Bank's Card Services group provides a wide range of credit card and debit card products and services to meet the varying lifestyle needs of its 5 million credit cardholders and 6 million debit cardholders. Revenues are derived from cardholder fees, interest payments on outstanding credit card balances, and merchant fees from *Visa* deposits and for usage of the bank's credit and debit card terminals.

The bank offers *Visa* Classic, Low Rate Option *Visa*, *Visa* Gold, U.S. Dollar *Visa* Gold, Royal Trust Canadian Plus *Visa*, and two new corporate *Visa* cards. *Visa* represents approximately 75% of the credit card volume in Canada. Royal Bank has accounted for the largest share of *Visa* dollar volumes in Canada in four of the past five years.

As the credit card industry has matured, intense competition from banks, non-banks and co-branded partners has resulted in increased fragmentation. The challenge is to target profitable market segments and enhance operating efficiencies in response to new U.S. and non-bank competitors.

Canadians have eagerly adopted debit cards as an alternative payment option since their national introduction in 1994, and the bank has experienced exceptional growth in this product. Sales volumes for debit cards were \$3.2 billion in 1995, an increase of 141% from 1994, and cardholder usage is projected to increase at a similar pace in 1996. Currently, almost 50% of the bank's ABM customers are using debit cards.

REVIEW OF 1995
To regain market share in *Visa* Classic, the bank introduced new card enhancements in late 1995 and plans have been made for a major repositioning in early 1996. In debit cards, the bank accelerated the introduction of debit card terminals to new merchant locations and now has more terminals in use across the country than any other Canadian financial institution.

Additions to the card product line in 1995 included the U.S. Dollar *Visa* Gold for frequent travellers, and a line of Corporate (travel and entertainment) and Purchasing *Visa* cards for business banking customers through an alliance with a leading U.S. issuer.

GOING FORWARD
The bank plans a number of initiatives in 1996 to strengthen its market position in credit cards, including alliances with third parties. The bank will continue to maintain its focus on profitability in the face of increasing competition. New technology will be introduced over the next two years to support market-driven programs consistent with the bank's segmentation strategies. In debit cards, the bank intends to increase its share of transactions and dollar volumes.

Royal Bank will pilot the Mondex Stored Value Card system ("smart" card) in Guelph, Ont., in 1996, along with a partner bank. The national roll-out is expected in 1997. This will be the vanguard of many chip-based innovations projected for cards, including new combination cards and information-based services and payment systems.



INSURANCE

Royal Bank has built a significant business in creditor life and disability insurance associated with its mortgage, personal and business loans, the largest such insurance portfolio among Canadian banks. It has been providing this service since 1967 and more than 1.4 million customers are currently covered. Approximately 90% of the risk inherent in the creditor life and disability certificates is assumed by the bank, and reinsured through an offshore subsidiary.

Royal Bank was the first Canadian bank to set up an insurance subsidiary, RBC Insurance Holdings Inc., and with the purchase of Voya-geur Insurance Company in 1993, the first to acquire an insurance company. In travel-related insurance, Voyageur is the largest Canadian insurer in terms of premium income and distributes its products through some 3,300 travel agencies across Canada. Voya-geur insured over 1.8 million travelling Canadians in 1995. The bank also sells travel emergency medical insurance through its branch network.

A home and automobile insurance program for bank employees was launched in 1992 in partnership with a large Canadian broker.

REVIEW OF 1995

Insurance activities generated premiums of approximately \$335 million in 1995, compared to \$325 million in 1994.

A Customer Insurance Service Centre was established in Mississauga, Ontario in 1995 to meet the information needs of both creditor life and disability customers and Royal Bank branch staff across Canada who sell the insurance. While enhancing service quality and efficiency, this state-of-the-art facility is intended to be a platform for the bank's future insurance growth.

The insurance business unit was strengthened during the year through the appointment of several experienced executives and through staff training. New product development plans were launched and strategies refined to guide the bank's eventual entry into both the property and casualty and life insurance markets. The bank expects to implement its strategy through a combination of internal initiatives, acquisitions and joint ventures.

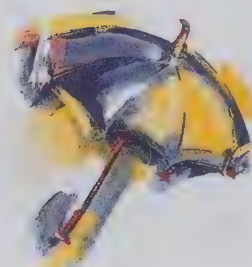
GOING FORWARD

Under Canadian legislation, banks are allowed to compete in the insurance business and to acquire insurance companies. With the main exception of authorized products which include creditor, travel health,

and personal accident insurance, banks cannot distribute insurance products through their branch networks, automated banking machines or telephone delivery channels. They are also restricted from using customer bank information files to selectively market insurance products.

The bank believes it can provide insurance and life annuities more efficiently to customers through its extensive branch network and alternative delivery channels. Along with the other Canadian banks, it will seek to have current restrictions removed in 1997, the scheduled date for the next revision of the Bank Act.

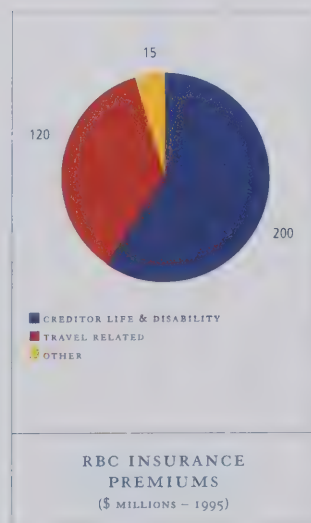
The bank intends to become a much larger player in the Canadian insurance market, with a primary focus of bringing insurance products to its approximately 10 million consumer and business customers. The Canadian insurance market totals about \$30 billion in premium income and the bank's objective is to achieve significant additional revenue growth on a profitable basis.



\$335 MILLION IN PREMIUMS
GENERATED IN 1995.

PROVIDING CREDITOR
INSURANCE TO 1.4 MILLION
CUSTOMERS.

SIGNIFICANT ADDITIONAL
PROFITABLE REVENUE GROWTH
SOUGHT IN \$30 BILLION
CANADIAN MARKET.





MUTUAL FUNDS

THIRD LARGEST MUTUAL FUND COMPANY IN CANADA.

\$11.8 BILLION OF ASSETS UNDER MANAGEMENT WITH 34 NO-LOAD FUNDS OFFERED.

8,900 BRANCH STAFF LICENSED AS SALES REPRESENTATIVES.

Royal Mutual Funds Inc. is the largest provider of no-load mutual funds in Canada and the third largest fund company overall with \$11.8 billion of assets under management at year-end 1995 and a market share of 8.6%. Royal Mutual Funds was created from the fund families offered by Royal Bank and Royal Trust. A total of 34 funds are offered to Canadian clients, including a full range of money market, fixed income, balanced, domestic and international equity funds.

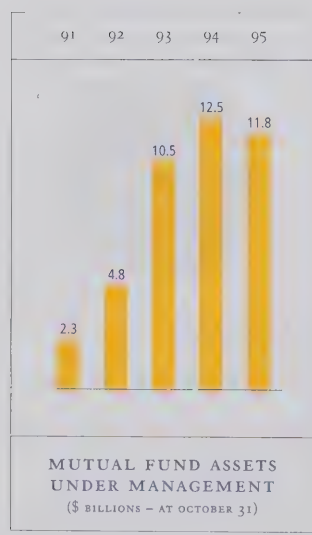
Management fees represent the major source of revenues and are charged to the funds in consideration for distribution, investment management and advisory services. The funds are sold primarily through Royal Bank and Royal Trust branches by approximately 8,900 licensed sales representatives, and are also available through RBC Dominion Securities and Action Direct.

Royal Mutual Funds is a no-load fund company, with no charges to buy, sell or switch between funds. This no-load structure is popular with investors, but bank no-load fund families are more affected by changes in the interest rate environment as many investors switch between mutual funds and guaranteed investment certificates.

REVIEW OF 1995
The period between late 1994 and early 1995 was difficult for no-load companies, particularly those with a large proportion of fixed income funds. Balances of Royal Mutual Funds reached a peak of \$14.7 billion at March 31, 1994, falling to a low of \$11.2 billion one year later before rising to \$11.8 billion at October 31, 1995. Growth of mutual fund assets resumed in the summer of 1995 when capital markets and interest rates stabilized. Three new international growth funds were launched at this time.

GOING FORWARD
While cyclical market trends will continue to affect the mutual fund industry, demographic trends support continued growth. The population is aging and is more focused on wealth accumulation, particularly retirement savings. Mutual funds are increasing their share of the personal balance sheet by offering investors access to global capital markets, professional money management, and the ability to diversify with a smaller investment than if individual securities were acquired directly.

The key priorities for Royal Mutual Funds are to build solid long-term investment performance, enhance system capabilities and improve sales and service. This includes targeted training of branch sales staff, continued development of its 1-800 mutual fund customer service line and exploring alternative distribution channels.



Mutual funds in Canada have experienced annual growth of 32% since 1991, with industry assets increasing to \$137.7 billion from \$45.7 billion. Assets of Royal Mutual Funds have increased by 50% annually over the same period to \$11.8 billion from \$2.3 billion, partially reflecting the acquisition of Royal Trust in 1993. Competition is intense from specialized Canadian mutual fund companies, banks, investment dealers and financial advisors as well as the large U.S. and international fund managers.

The integration of the Royal Bank and Royal Trust fund families continued during the year with funds previously unique to either organization now available in both branch networks. A new system for unitholder record-keeping was selected, with the first phase of implementation scheduled for December 1996.

ROYAL TRUST

Through Royal Trust, the bank is Canada's largest provider of investment management and custody services for personal and institutional clients. Royal Trust's assets under administration amounted to \$356 billion, comprising \$325 billion of institutional assets and \$31 billion of personal assets, excluding mutual funds. Assets under management totalled \$16 billion for institutional clients and \$13 billion for personal clients, excluding mutual funds.

Royal Trust's core business is wealth management in Canada, comprised of personal investment management, trust and banking services offered through 99 offices in 10 market centres across the country.

Royal Trust manages the largest private banking network of any Canadian financial institution by number of locations and geographic reach with 28 units in 22 countries. These offices, which operate under the Royal Bank of Canada name, have a large and growing client base in Europe, Asia and South America, and a presence in the United States.

For institutional clients, Royal Trust provides investment support services and global securities administration and custody in 65 countries around the world. In a major survey this year sponsored by *Global Investor* magazine covering 625 fund managers, Royal Trust ranked fourth overall globally for quality service delivery.

For the past seven years, Royal Trust's Canadian custody services have been top rated by *Global Custodian* magazine in terms of service excellence.

Royal Trust's institutional investment subsidiary, RT Capital Management Inc., ranks among the top pension fund investment managers in Canada in terms of client assets under management. Over the past five years, RT Capital has consistently ranked in the top 25% of all Canadian institutional fund managers on the basis of investment performance.

REVIEW OF 1995
Royal Trust established a Global Investment Group in 1995, a team of international investment experts who manage approximately \$8 billion through seven offices around the world. This group is an important value-added service for customers seeking a broader diversification of their assets, and for Global Private Banking clients around the world.

In Canada, plans were made to house Royal Trust representatives in selected bank branches to further improve the cost-effectiveness of its wealth management network, and to increase referral opportunities. As well, RBC Dominion Securities investment advisors were introduced into selected Royal Trust branches to provide customers with additional services.

GOING FORWARD

Strong demand is expected for investment management and administration services in Canada and abroad. Over the next two decades, a generation of Canadians is expected to inherit more than \$1 trillion, providing significant potential for trust and investment banking services.

Growth in worldwide pension assets and the increasing complexity and globalization of investments also create significant opportunity for Royal Trust's sophisticated investment management and custody services. As well, Canadians may now invest up to 20% of their registered plan assets in international investments, creating particular opportunities for the Global Investment Group and global custody business.

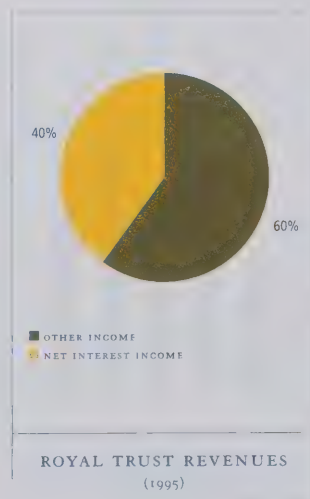
In all of these markets, Royal Trust believes it is strongly positioned to face increasing competition because of its well-regarded client service and relationship management.



CANADA'S LARGEST PROVIDER
OF INVESTMENT MANAGEMENT
AND CUSTODY SERVICES
FOR PERSONAL AND
INSTITUTIONAL CLIENTS.

\$356 BILLION OF ASSETS UNDER
ADMINISTRATION; \$29 BILLION
OF ASSETS UNDER MANAGEMENT.

GLOBAL PRIVATE BANKING
NETWORK EXTENDS TO
22 COUNTRIES.





\$36 BILLION OF INDIVIDUAL
ASSETS UNDER ADMINISTRATION.

MANAGED OR CO-MANAGED
\$12.7 BILLION IN CANADIAN
CORPORATE OFFERINGS IN 1995.

MANAGED OR CO-MANAGED
\$20.5 BILLION IN NEW
GOVERNMENT DEBT ISSUES IN
ALL MARKETS IN 1995.



RBC DOMINION SECURITIES

RBC Dominion Securities is a full-service brokerage firm, offering equity, fixed income, investment banking and advisory services in Canada and abroad. The firm, 73% owned by Royal Bank, serves corporations and governments as well as institutional and individual investors. It is also active in the global sales and trading of fixed income and equity securities.

RBC Dominion Securities is a market maker in Canadian equities and fixed income instruments, conducting transactions on behalf of clients and for its own account. The firm has a leading position in Canadian equities trading, sales and research for institutional clients.

In Canada, RBC Dominion Securities has 172 offices. International sales offices are located in New York, Boston, Chicago, London, Paris, Lausanne, Tokyo and Hong Kong.

With common shareholders' equity of \$350 million at October 31, 1995, the firm is extremely well capitalized.

REVIEW OF 1995
Almost half of the firm's revenues are derived from individual clients. At September 30, 1995, individual assets under administration totalled \$36 billion, an increase of 19% over 1994. The firm is now one of the top custodians of retirement assets in the country.

In investment banking, RBC Dominion Securities participated in more equity and debt financings than any other firm in Canada in 1995. It managed or co-managed 89 Canadian corporate public offerings with an aggregate value of approximately \$12.7 billion, as well as \$20.5 billion in new government debt issues in all markets.

The firm was very active in the Canadian mergers and acquisitions market. It was involved in virtually every major public takeover transaction in Canada during the past year.

In order to better serve the needs of corporate clients, the firm established both equity and fixed income capital markets groups. These units provide timely market advice and structure financial instruments to enable clients to manage more effectively their capital structure and risk exposures.

Although 1995 was characterized by a volatile trading environment, the fixed income business performed well in absolute terms, and particularly well relative to its competitors. Money market trading volumes rose 20% and products held by clients rose by 19% over 1994.

RBC Dominion Securities acquired the 30% minority interest in its real estate finance subsidiary, DS Marcil Inc. DS Marcil managed commercial property sales of \$330 million in 1995 and arranged real estate financings of \$300 million.

GOING FORWARD

The firm will continue to focus on training its growing number of investment advisors, while maintaining its ongoing commitment to strengthen its equity sales and research capability. Its goal is to ensure its investment advisors offer the best service and advice in Canada.

Over time RBC Dominion Securities plans to commit additional resources to capitalize on its acquisition of a team of 30 professionals in New York forming a global full service structured equity group.

RBC Dominion Securities will continue to work closely with other members of the Royal Bank group following successful experiences in the past few years. These joint efforts will focus particularly on serving individual clients, and in the trading areas.

TRADING

Royal Bank is a market maker in foreign exchange and interest rate products, as well as in Canadian and international money market instruments. The bulk of the bank's derivatives activities involves interest rate and foreign exchange instruments. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. The Trading group currently has a limited involvement in equity, precious metals and commodities derivatives.

Approximately 97% of the bank's derivatives contracts relate to sales and trading activities. These activities involve structuring and marketing of derivative products to customers to assist them in managing a variety of financial risks. The bank also engages in derivative transactions for its own account to hedge trading positions. Most of the derivative non-trading activities involve the use of swaps to hedge interest rate positions arising from retail and corporate clients' borrowing and lending activities.

Trading activities are conducted through three regional hubs – Toronto, London and Singapore. These are supported by marketing teams and regional trading floors in nine key international financial centres and four additional Canadian locations.

The Trading group serves corporations, governments and their agencies, banks, insurance and trust companies, as well as fund managers and investment dealers. Through Royal Bank branches, it indirectly serves individuals and small and medium-sized businesses (SMEs).

REVIEW OF 1995

Trading revenues increased in 1995 compared to 1994, reflecting strong customer demand and improved trading conditions relating to market making and positioning activities.

During the year, the Trading group tailored its services to be conveniently accessible to SMEs in recognition of their unique characteristics. The new service offers SME clients electronic delivery of treasury products through bank branches and through special telephone links to the Canadian treasury units. Service roll-out across the country began during the year.

GOING FORWARD

A key objective of the Trading group is to strengthen its position by bringing together the trading activities of the bank and RBC Dominion Securities. To accommodate this integration, a new trading floor with 300 positions is scheduled for completion in Toronto in 1996. Similar integration is expected to take place in London, Singapore, New York and Montreal in 1996.

The major benefit of this integration will be the ability to offer customers a wider range of services, including structured derivatives products. Greater efficiency will result from combined back office operations and marketing.



MARKET MAKER IN FOREIGN EXCHANGE, INTEREST RATE PRODUCTS AND CANADIAN AND INTERNATIONAL MONEY MARKET INSTRUMENTS.

SERVING BUSINESSES, GOVERNMENTS, FINANCIAL INSTITUTIONS, FUND MANAGERS, INVESTMENT DEALERS AND, THROUGH THE BRANCH NETWORK, THE RETAIL MARKET.





BUSINESS BANKING

Royal Bank has more than 350,000 Business Banking customers, including small owner-operated entrepreneurial ventures, agricultural and large commercial enterprises.

The Business Banking group offers customers a range of deposit, investment and loan products, a variety of cash management and electronic commerce services such as automated payroll, as well as equity and venture capital.

Loans and bankers' acceptances to these customers averaged \$29 billion in 1995, of which \$9 billion were to small and medium-sized enterprises (SMEs), generally defined as firms with gross revenues of under \$5 million and borrowings of less than \$1 million. Over 80% of the bank's business customers borrow less than \$75,000 with an average loan balance of \$23,000. The bank is the largest agricultural lender in Canada, with loans of \$3 billion.

Deposit balances averaged \$16 billion in 1995.

Competition in the Business Banking credit market is primarily from other chartered banks.

The Business Banking group also links SMEs, commercial enterprises and the important knowledge-based industries sector to other bank units such as investment banking, trade finance, trading, and personal financial services.

REVIEW OF 1995

Contributions from fee-based services improved for this year, while loan losses fell by 50%.

The Business Banking group expanded its support to SMEs across the country through venture and patient loan investments, mainly in conjunction with government agencies. It also experienced loan growth at the low end of the SME market, reflecting its support for government initiatives to increase funding for small business.

Despite increased competition from non-banks in the information services area, the group continued to grow its customer base in such areas as cash management services where it offers targeted solutions for SMEs, mid-market firms and large commercial enterprises. It also expanded its electronic services with the introduction of an electronic mail box through the Internet. The total number of electronic connections with customers increased to 43,000, up 12% from 1994.

GOING FORWARD

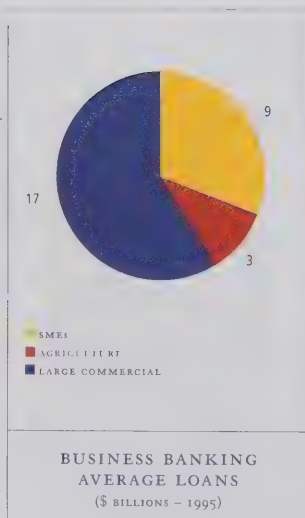
The Business Banking group's objective is to further reduce credit losses and to expand deposit and fee-based sources of revenue from business customers. One of the group's key initiatives is segmented marketing strategies for agriculture, SME, mid-market and commercial customers as well as knowledge-based industries, innovative growth firms, retailers and wholesalers, and the public sector, supported by account manager training and new products and services.

Service delivery is also being transformed, with increased emphasis on multiple delivery channel options such as telephone and expanded electronic links to complement or replace physical locations and meet customer needs. This will help to improve customer service, reduce costs and make the bank more competitive in its target markets.

\$29 BILLION IN AVERAGE LOANS
AND BANKERS' ACCEPTANCES,
\$16 BILLION IN AVERAGE
DEPOSITS.

SERVING MORE THAN
350,000 CLIENTS, LARGE
AND SMALL.

43,000 ELECTRONIC
CONNECTIONS TO CLIENTS.



MULTINATIONAL BANKING

The Multinational Banking group develops and manages banking relationships globally with some 1,200 of the bank's largest corporate and government clients. Through a network of offices located in Europe, Asia, the U.S.A., and major centres in Canada, the group delivers the full resources of the bank to these clients.

The resources include a full range of lending, credit, trading and capital markets products, as well as a number of specialized services. The bank is active in loan syndication, and is regularly ranked by financial trade journals among the 25 largest global arrangers and underwriters of syndicated credit facilities.

The group's North American asset securitization team services clients' needs on either side of the U.S.A./Canada border through Old Line Funding Corp. and Pure Trust, asset-backed commercial paper funding vehicles administered by the bank.

Through its structured finance teams in Europe, Canada and the U.S., the group works actively through strategic alliances to develop more effective solutions to cross-border financing and other complex transactions.

In Canada, where independent surveys confirm the bank's leadership in the corporate banking sector as measured by the quality of service and advice provided to customers, the group provides a full range of cash management and electronic commerce services. Internationally, the bank provides a global cash management product for use by multinational clients worldwide.

REVIEW OF 1995

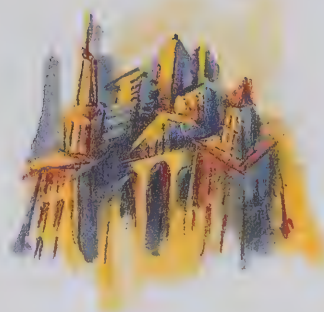
In 1995, outstanding loans and bankers' acceptances averaged \$18 billion. During the year, global financial markets had exceptional levels of liquidity. One result of this was sustained downward pressure on loan fees and margins. As well, the overall market continued to be affected by the disintermediation of banking assets by capital markets and other sources.

The Multinational Banking group continued to enhance its industry specialization in various sectors including oil and gas, forest products, mining, and real estate. Industry managers have been appointed in certain major sectors, responsible for the portfolio mix and development of comprehensive industry marketing strategies. Wherever practical, account managers conduct relationships with clients from one or two industries. This provides them valuable insight into the financial needs and strengths common to the industries they cover.

GOING FORWARD

For Multinational Banking, profitable growth relies on achieving a balance between risk and return in highly competitive markets, while building and sustaining first-tier relationships. The group's objective is to continuously improve portfolio quality and to increase revenues.

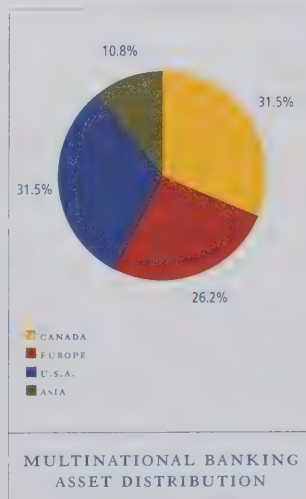
Through its account managers and specialists, the group will focus on strengthening relationships with key clients. It will also develop new relationships with global corporations in its areas of industry specialization, and with other investment grade clients.

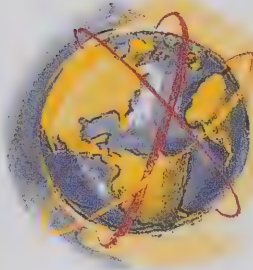


\$18 BILLION IN AVERAGE LOANS
AND BANKERS' ACCEPTANCES
TO LARGE CORPORATE AND
GOVERNMENT CLIENTS IN
CANADA AND ABROAD.

AMONG THE 25 LARGEST
GLOBAL ARRANGERS AND
UNDERWRITERS OF SYNDICATED
CREDIT FACILITIES.

EMPHASIS GIVEN
TO STRENGTHENING
RELATIONSHIPS WITH
KEY CLIENTS.





FINANCIAL INSTITUTIONS AND TRADE

OFFERING TRADE LINES FOR MORE THAN 120 COUNTRIES.

SERVING 40% OF INTERNATIONAL BANKS NEEDING CANADIAN CORRESPONDENT SERVICES.

REPRESENTATIVE OFFICES OPENED IN GUANGZHOU (CHINA) AND SANTIAGO (CHILE), TWO KEY GROWTH MARKETS.

The Financial Institutions and Trade group manages the bank's global relationships with financial institutions, both banks and non-banks, and provides trade finance to commercial exporters and importers around the world.

Correspondent banking involves the delivery of traditional Canadian dollar clearing and payment services, lending, letters of credit and trading products to banks. Services provided to non-bank financial institutions such as fund managers, investment dealers, insurance and trust companies include trading and credit products as well as non-lending operating services.

Correspondent banking is primarily a volume-based processing business where timeliness and accuracy in carrying out the instructions of correspondent banks is critical. In addition, providing trade finance with and through correspondent banks in emerging economies has become an important component of the business. About 40% of all international banks requiring Canadian correspondent services use Royal Bank and over 3,000 have accounts with the bank for this purpose. The bank's correspondent banking business with financial institutions is experiencing low natural growth as a result of the accelerating consolidation of this market around the world.

In the trade financing market, the bank offers trade lines for more than 120 countries. It also serves exporters through Royal Bank Export Finance Co. Ltd. (REFCO) and six international trade centres in Canada. Internationally, a broad range of trade services is provided through a network of subsidiaries, branches and representative offices in over 30 countries, and in co-operation with correspondent banks worldwide.

REVIEW OF 1995

The Financial Institutions and Trade group again recorded a very low level of credit losses in 1995. At year-end, the group had approximately \$3 billion of loans and \$8 billion of letters of credit outstanding.

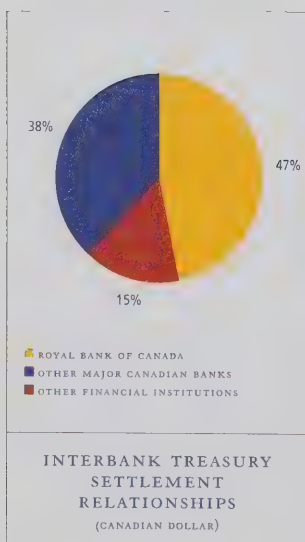
During 1995, the bank expanded its presence in trade finance and correspondent banking in two key growth markets. Representative offices were opened in Guangzhou, China, and Santiago, Chile, complementing two established offices in China (Beijing and Shanghai), and four in Latin America (Mexico City, Caracas, São Paulo and Buenos Aires).

GOING FORWARD

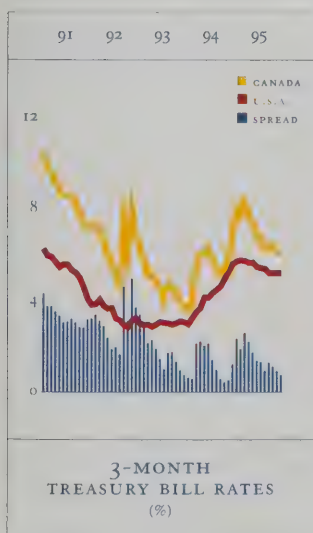
Trade finance is a key area of intended growth for the Financial Institutions and Trade group. Increased penetration with Canadian exporters and importers is being aggressively pursued and the bank also intends to increase its trade finance activity with non-Canadian customers. World trade is expected to increase by \$2.5 trillion by the year 2000, with the fastest growth in Asia and Latin America. The bank believes it is positioned to benefit from such growth.

The Financial Institutions and Trade group is implementing a business plan aimed at expanding revenue by offering financial services to non-bank financial institutions outside Canada, mainly insurance companies.

All of these initiatives are underpinned by investment in technology. This will allow significant productivity improvement in processing and electronic delivery capabilities, allowing the group to be more responsive to customer needs.



THIS PART OF THE ANNUAL REPORT
REVIEWS ROYAL BANK OF CANADA'S
FINANCIAL PERFORMANCE AND
CONDITION FOR THE FISCAL YEARS ENDED
OCTOBER 31, 1995, 1994 AND 1993 AND
PROVIDES A GENERAL INDICATION OF THE
BANK'S EXPECTATIONS OF FUTURE PERFOR-
MANCE. ALSO INCLUDED IS A DISCUSSION
OF THE BANK'S PROCEDURES FOR MANAGING
CREDIT, LIQUIDITY, MARKET AND OTHER
RISKS RELATING TO BOTH ITS BALANCE SHEET
AND OFF-BALANCE SHEET ACTIVITIES.



The bank segments its results into domestic and international components. Domestic operations include all business transacted in Canada, excluding the Canadian-based activities of the bank's international money market units. International operations include all business transacted outside Canada, as well as the above-mentioned money market activities.

Revenue and expense amounts for Royal Trust included in this discussion relate to Royal Trust's operations following its acquisition by the bank on September 1, 1993. Royal Trust's September 1993 results were included in the bank's 1993 consolidated totals, while its following thirteen months of results were included in the bank's consolidated 1994 amounts in order to align the subsidiary's fiscal year with that of the bank's. While the extra month of Royal Trust's results had virtually no impact on net income in 1994, its effect on net interest income, other income and non-interest

expenses has been disclosed in the relevant sections of the Discussion of Earnings beginning on page 26.

To assist readers, a glossary of financial terms is provided on pages 87-88. Also, Note 1 to the financial statements on pages 64-65 presents a summary of the significant accounting policies followed in the preparation of the bank's financial statements.

In mid-October 1995, the bank's common shares commenced trading on the New York Stock Exchange. The bank's financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). Material differences between Canadian and U.S. GAAP are described in Note 19 to the financial statements on pages 80-81.

CANADA'S ECONOMIC PERFORMANCE

This section provides a brief overview of Canada's economic conditions during the bank's 1995 fiscal year, our expectations for 1996, and the possible impact of economic trends on the bank's future performance.

Business conditions in Canada deteriorated in 1995 as the economy slowed abruptly. This resulted from a slowing U.S. economy, higher Canadian interest rates and increasing fiscal restraint by the federal and most provincial governments, aimed at lowering their budget deficits. Interest-sensitive spending declined, particularly consumer spending on durable goods, and business investment in residential construction. This resulted in weaker household credit growth.

The U.S. economy slowed in response to interest rate increases throughout 1994,

engineered by the Federal Reserve to cool the economy and bring it to a more sustainable, non-inflationary growth path. Canadian interest rates rose more than those in the U.S., largely because of Canada's heavier debt load.

In 1995, Canada's economic growth will likely be approximately 2%. We expect GDP growth to be about 2% in 1996 as well but, in contrast to 1995, growth should gather momentum as the year moves along. The modest recovery is expected to be led by a rebound in exports to the United States and bolstered by lower interest rates. Short-term interest rates are expected to decline to about 5% at the end of 1996, after having fallen by 300 basis points, to under 6%, between March and mid-November 1995. Based on strong fundamental factors, the Canadian dollar should appreciate by 2 or 3 cents U.S. in 1996, from 74 cents U.S. in mid-November of this year.

The U.S. economy rebounded sharply in the third quarter of 1995 and, with inflation seemingly well under control, is now poised for a few years of moderate, steady growth. This is good news for Canada because of its heavy reliance on export demand from the United States, and will have positive implications for the creditworthiness of the bank's clients in export-oriented industries. However, relatively high unemployment, heavy consumer debt and deepening government spending cuts in Canada continue to undermine consumer confidence. Consumer spending will likely remain sluggish in Canada.

TABLE I FINANCIAL GOALS AND PERFORMANCE

		MEDIUM-TERM GOALS	PERFORMANCE				
			1995	1994	1993	1992	1991
Profitability (1)							
Net interest income							
– taxable equivalent basis (2)	2.90%	2.72%	2.83%	3.13%	3.05%	3.09%	
Provision for credit losses (2)	(.25–.35)	(.34)	(.49)	(1.23)	(1.51)	(.47)	
Other income (2)	1.65	1.50	1.59	1.45	1.40	1.34	
Non-interest expenses (3)	(2.65)	(2.68)	(2.78)	(3.08)	(2.85)	(2.76)	
Income taxes and non-controlling interest (2)	(.65)	(.47)	(.45)	(.06)	(.01)	(.44)	
Return on assets (2)	.90%	.73%	.70%	.21%	.08%	.76%	
Return on common shareholders' equity	16.0–18.0%	16.6%	16.8%	2.4%	(.3)%	15.5%	
Productivity (4)	58.0%	63.5%	63.0%	61.0%	62.0%	62.3%	
Dividend payout ratio (5)	30–40%	33.8%	36.4%	–	–	40.0%	
Capital adequacy (6)							
Common equity to risk-adjusted assets	6.0%	5.8%	5.3%	4.9%	5.2%	5.4%	
Common equity to assets	5.0%	3.8%	3.7%	3.4%	4.3%	4.6%	

(1) For the year ended October 31.

(2) As a percentage of average assets.

(3) As a percentage of average assets. Excluding restructuring costs recorded in 1993 and 1992 of \$410 million and \$130 million respectively, this ratio was 2.79% in 1993 and 2.76% in 1992.

(4) Non-interest expenses as a percentage of gross revenue (taxable equivalent net interest income and other income), excluding restructuring costs recorded in 1993 and 1992.

(5) The ratios for 1993 and 1992 are not meaningful.

(6) As at October 31.

EARNING PER SHARE UP 12% FROM 1994, EXCLUDING UNUSUAL LDC GAINS.

Despite growth in the Canadian economy, excess capacity remains significant and the inflation outlook is favourable as a result. The outcome of the October 30th referendum in Quebec resulted in a rejection of sovereignty for Quebec after a formal offer to Canada for a new economic and political partnership. While this was supportive of lower interest rates, the very close result points towards continuing political uncertainty.

Apart from the issue of political uncertainty, the principal downside risk to our Canadian forecast is the possible inability of the United States to maintain a "soft landing" growth path. This could occur, in the United States, either through a deceleration in economic activity causing a recession sometime in 1996 or, if the economy accelerates rapidly, through a resurgence in inflation that triggers a high interest rate policy response. This could

result in a mild recession in the U.S.A. by 1997. Should either one of these alternatives occur, growth in the bank's loans and assets under management could be lower than anticipated in 1996-97.

FINANCIAL GOALS AND PERFORMANCE

Net income in 1995 was \$1,262 million versus \$1,169 million in 1994 and \$300 million in 1993. Earnings per share were \$3.49 this year compared to \$3.19 last year and \$0.46 in 1993.

Excluding unusual after-tax gains of \$30 million in 1995 and \$50 million in 1994, from the sale of Brazilian and Argentine past due interest bonds respectively, net income was up \$113 million or 10% from last year, while earnings per share were 12% higher. This year's higher earnings largely resulted from progress in achieving the bank's three strategic priorities:

- **Further improvement in portfolio quality:** The provision for credit losses fell by \$240 million or 29% from 1994, while gross non-accrual loans declined by \$1.5 billion or 33%. A detailed discussion of problem loans and credit losses appears on pages 43-48.
- **Continued cost control:** In 1995, non-interest expenses stayed at the prior year's level, despite some unusual expense items and an increase in government levies. Lower expenses at RBC Dominion Securities and one less month of expenses for Royal Trust contributed to this year's performance. A full discussion of operating expenses is provided on pages 32-33.
- **Growth in revenues:** Revenues from trading, cards, and investment management and custodial activities showed strong growth this year. Excluding capital market fees and one extra month of results for Royal Trust in 1994, other income rose by \$98 million or 5% this

year, reflecting the bank's emphasis on expanding its fee-based revenue sources.

Conditions in global, and particularly Canadian, securities markets were weaker in 1995 than in 1994, leading to a \$133 million or 23% decline in the bank's capital market fees this year. Accordingly, net income at RBC Dominion Securities, which contributes almost all of the bank's capital market fees, declined from last year's record level of \$133 million to \$77 million in 1995. RBC Dominion Securities remains one of the most profitable brokerage firms in Canada, as measured by net income.

Net interest income was virtually unchanged this year, despite lower income from LDCs, a substantial decline in securities gains and one less month of results for Royal Trust. Nevertheless, the bank's net interest margin of 2.72% (based on average total assets) remained among the highest in the Canadian banking sector. A full discussion of revenues appears on pages 27-31.

As a result of this year's strong results, the bank met or approached a number of its medium-term (3-5 year) financial goals. This encouraged the bank to revise some of these goals at the end of 1995, making them more aggressive targets in most cases. These revised goals, shown in Table 1 on page 24, have been set with the objective of enhancing shareholder value through consistent earnings growth.

In establishing its goals, the bank takes into consideration expected economic and market conditions, rates of return earned in the financial services industry, the bank's previous financial perfor-

mance and expected changes in its business mix.

RETURN ON AVERAGE COMMON SHAREHOLDERS' EQUITY (ROE)

One of the bank's key objectives in setting its medium-term ROE goal is to provide a risk premium over the long-term "risk-free" rate of return (as represented by the yield on 10-year Government of Canada bonds) that is greater than that offered on similar equity investments. Reflecting the possible range of this premium under different market conditions, the bank's desire for returns in the first quartile of the 40 largest North American banks, and its own ROE of over 16% in both 1994 and 1995, the ROE goal was raised to 16-18% at the end of 1995 from 16% in 1994.

The bank's ROE was 16.6% in 1995, down from 16.8% in 1994. Average common shareholders' equity was up \$675 million or 11% this year, reflecting strong internal capital generation.

RETURN ON ASSETS (ROA)

Despite changes to a number of goals affecting the income statement, the ROA goal of .90% remained unchanged this year.

The bank recorded a return on assets of .73% in 1995, up from .70% in 1994. Further progress in the three key strategic priorities outlined earlier are required for the bank to attain its .90% ROA target in the 3-5 year horizon.

OTHER PROFITABILITY MEASURES

Net Interest Income: The medium-term goal for the net interest margin was reduced to 2.90% this year from the previous 3.00% target. The

former goal is no longer realistic as the bank's asset base has shifted to a higher proportion of liquid assets and residential mortgages, which are favourable from a risk standpoint but generate narrow margins. In addition, margins have been constrained by increasing price competition.

For these reasons, as well as lower securities gains and a reduction in income from LDCs, the net interest margin narrowed to 2.72% this year from 2.83% in 1994 and 3.13% in 1993.

Provision for Credit

Losses: The goal for the provision for credit losses as a percentage of average loans and bankers' acceptances was lowered to .35%-.45% from .50% in 1994. As a percentage of average assets, the goal is now .25%-.35%, down from .40% last year. These reductions stem from the improvement in the bank's risk profile and the attainment of the previous targets this year. The ranges represent levels that the bank intends to attain over a full business cycle.

In 1995, the provision for credit losses amounted to .48% of average loans and bankers' acceptances and .34% of average assets, down from .67% and .49% respectively in 1994.

Other Income: The goal for other income as a percentage of average assets was left unchanged at 1.65%. This year, the bank's performance dropped to 1.50% from 1.59% in 1994 due to the sharp decline in capital market fees discussed earlier on this page.

RBC DOMINION
SECURITIES REMAINS
ONE OF THE MOST
PROFITABLE BROKERAGE
FIRMS IN CANADA.

ROE GOAL RAISED
FROM 16% TO
16-18%.

**DIVIDEND PAYOUT
GOAL RAISED
TO 30-40%
FROM 30-33%.**

Productivity: To maintain its ROA in an environment where net interest margins are under pressure, the bank must continue to improve its cost structure. With this objective in mind, the medium-term target for non-interest expenses as a percentage of average assets was lowered to 2.65% in 1995 from 2.70% in 1994. The bank achieved a level of 2.68% in 1995, down from 2.78% in 1994.

The goal for non-interest expenses as a percentage of total revenues (the overhead or productivity ratio) was left unchanged at 58%. In 1995, the bank's productivity ratio was 63.5% compared to 63.0% in 1994. Attaining the 58% target is one of management's most important objectives and a challenge given the bank's extensive retail, trust and investment banking operations which, by their nature, have high expense-to-revenue ratios but also high ROEs.

CAPITAL ADEQUACY

The goal for common equity to risk-adjusted assets remained unchanged at 6.0%. By October 31, 1995, the bank's ratio had risen to 5.8% from 5.3% a year earlier, through strong internal capital generation.

Although the bank continues to maintain its common equity to assets target of 5.0%, this measure is believed to be much less meaningful than the common equity to risk-adjusted assets ratio since it does not factor in the risk profile of assets. For example, liquid assets have a lower risk profile and require a far lower capital underpinning than business loans. The bank's common equity to assets ratio increased to 3.8% by the end of 1995 from 3.7% a year earlier.

In 1995, the bank discontinued its goals for Tier 1 and Total capital ratios, which had been 7.0% and 10.0% respectively. These goals were virtually met by year-end 1995 and the bank's ratios are far above the minimum regulatory requirements of 4% for Tier 1 capital and 8% for Total capital.

**RETURN TO COMMON
SHAREHOLDERS**

Providing superior rates of return to its shareholders is one of Royal Bank's overriding objectives. This return consists of capital gains and dividend income.

The total return to common shareholders was 10.3% in 1995. This return comprised a 6.2% increase in the bank's common share price, from \$28.38 at October 31, 1994 to \$30.13 at October 31, 1995, and a dividend yield of 4.1% based on common share dividends of \$1.18 per share divided by the average of the year's high (\$31.38) and low (\$25.88) share prices. This year's 10.3% return followed the bank's total return of 8.2% in 1994, which was the highest among Canada's six major banks.

Based on a book value of \$22.42, the market price of the bank's common shares was 134% of book value at October 31, 1995, once again the highest in the Canadian banking sector. Since the end of 1993, book value per share has risen over 11% annually, through internal capital generation.

In 1995, the bank paid out common share dividends of \$1.18 per share, up from \$1.16 per share in 1994, reflecting a 2 cent increase in the quarterly common share dividend in this year's fourth quarter.

The dividend payout ratio (common share dividends as a percentage of net income less preferred dividends) was 34% in 1995. At the end of this year, the bank raised its dividend payout goal to 30-40% from 30-33% in 1994, as part of its objective to provide superior returns to shareholders.

**DISCUSSION OF
EARNINGS**

DOMESTIC OPERATIONS

As shown in Table 2 on page 27, domestic net income rose by \$85 million or 12% in 1995.

Note 2 on page 66 shows that the domestic provision for credit losses was down \$302 million or 38%, following a \$1.1 billion or 57% decline in 1994. Asset quality improvement was further evidenced by a \$1.3 billion or 36% reduction in domestic gross non-accrual loans, of which approximately half was attributable to the commercial real estate portfolio.

Domestic operating costs fell by \$33 million or 1% in 1995, largely reflecting one less month of expenses for Royal Trust.

However, domestic other income was down \$121 million or 6% due to a sharp reduction in capital market fees.

Domestic average assets increased by \$4.6 billion or 3% in 1995, following a 19% increase in 1994. This year's increase occurred mainly in liquid assets. Domestic return on assets was .58%, up from .54% a year ago.

The bank will continue to strive for further improvements in credit quality, productivity and revenue generation to enhance the performance of its domestic operations.

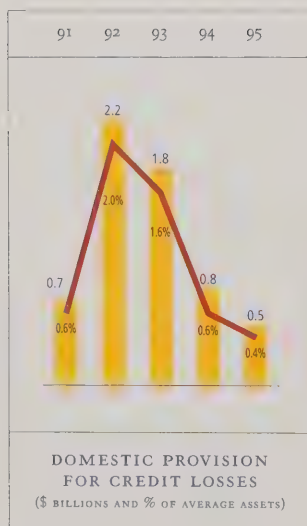


TABLE 2 HIGHLIGHTS OF DOMESTIC AND INTERNATIONAL EARNINGS

For the year ended October 31 (As a percentage of average assets, taxable equivalent basis)					
	1995	1994	1993	1992	1991
Domestic					
Net interest income	2.87%	2.97%	3.23%	3.24%	3.23%
Provision for credit losses	(.35)	(.58)	(1.63)	(2.03)	(.64)
Other income	1.44	1.58	1.44	1.39	1.32
Non-interest expenses	(2.87)	(3.00)	(3.43)	(3.05)	(3.00)
Income taxes	(.49)	(.40)	.19	.20	(.35)
Non-controlling interest in net income of subsidiaries	(.02)	(.03)	(.03)	(.02)	(.01)
Return on assets	.58%	.54%	(.23)%	(.27)%	.55%
Net income (loss) (\$ millions)	\$803	\$718	\$(255)	\$(288)	\$567
Average assets (\$ millions)	\$138,700	\$134,100	\$112,800	\$108,500	\$102,800
International					
Net interest income	2.13%	2.26%	2.72%	2.30%	2.55%
Provision for credit losses	(.28)	(.11)	.30	.55	.21
Other income	1.73	1.65	1.51	1.46	1.37
Non-interest expenses	(1.91)	(1.91)	(1.75)	(2.08)	(1.84)
Income taxes	(.33)	(.50)	(.90)	(.79)	(.76)
Non-controlling interest in net income of subsidiaries	(.01)	(.01)	(.01)	(.01)	(.01)
Return on assets	1.33%	1.38%	1.87%	1.43%	1.52%
Net income (\$ millions)	\$459	\$451	\$555	\$395	\$416
Average assets (\$ millions)	\$34,400	\$32,600	\$29,700	\$27,700	\$27,300
Total bank					
Net income (\$ millions)	\$1,262	\$1,169	\$300	\$107	\$983
Average assets (\$ millions)	\$173,100	\$166,700	\$142,500	\$136,200	\$130,100
Return on assets	.73%	.70%	.21%	.08%	.76%

INTERNATIONAL
OPERATIONS

As shown in Table 2, international net income was largely unchanged from a year ago.

Note 2 on page 66 shows that an increase in other income, mainly from foreign exchange and other trading activities, was offset by a decline in LDC interest income and by higher non-interest expenses and provisions for credit losses. Nevertheless, international profitability remained strong in 1995, with a return on assets of over 1.30% for the fifth consecutive year.

International other income was up 11% this year, following a 20% increase in 1994. International non-interest expenses rose by 5%, following a 20% increase last year. While the provision for credit losses rose by \$62 million in 1995, it amounted to only .28% of related average assets,

at the lower end of the bank's 3-5 year target of .25-.35%.

The bank's international earnings in 1996 will be influenced by the decision to hold or sell some of the bank's LDC assets, which include past due interest bonds with a market value of \$61 million at October 31, 1995. These bonds are carried on the bank's balance sheet at nil value and, if sold, their proceeds will be included in net interest income.

NET INTEREST INCOME

Net interest income is the difference between what the bank earns on assets such as loans and securities and what it pays on interest-bearing instruments such as deposits and subordinated debentures. It is mainly affected by changes in the volume and mix of earning assets and in the interest rates on loans and deposits.

As shown in Table 4 on page 30, net interest income was virtually unchanged in 1995. This followed an increase of \$263 million or 6% in 1994. As shown in Table 3 on page 29, the net interest margin was 2.72% compared to 2.83% a year ago and 3.13% in 1993. The major factors contributing to the lack of growth in net interest income this year were:

- Proceeds from the sale of LDC securities (past due interest bonds) of \$50 million in 1995 versus \$82 million in 1994 and \$154 million in 1993.
- Securities gains (excluding LDC securities) of \$111 million in 1995 compared to \$178 million in 1994 and \$347 million in 1993. The favourable interest rate movements of the last two years were not repeated through most of 1995.
- Twelve months of net interest income from Royal Trust in 1995 versus thirteen

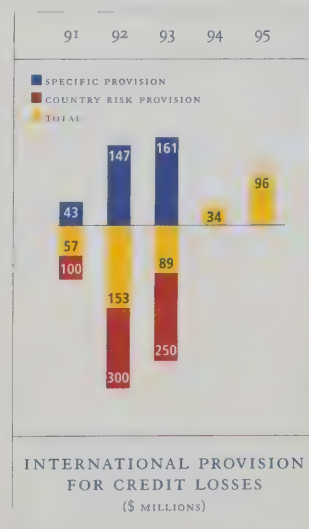


TABLE 3 NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

For the year ended October 31 (\$ millions, taxable equivalent basis)	1995			1994			1993		
	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE
ASSETS									
Earning assets									
Deposits with other banks									
Non-interest bearing	\$ 258	\$ —	—%	\$ 795	\$ —	—%	\$ 341	\$ —	—%
Interest bearing									
Domestic	1,238	83	6.70	616	40	6.49	634	35	5.52
International	12,578	734	5.84	10,188	439	4.31	7,465	286	3.83
	14,074	817	5.81	11,599	479	4.13	8,440	321	3.80
Securities									
Tax exempt	839	93	11.08	1,180	115	9.75	1,576	145	9.20
Other securities	29,483	1,586	5.38	24,813	1,125	4.53	17,532	814	4.64
Net gains on securities	—	111	—	—	178	—	—	347	—
	30,322	1,790	5.90	25,993	1,418	5.46	19,108	1,306	6.83
Loans (1)									
Domestic									
Residential mortgages	43,736	3,744	8.56	43,358	3,654	8.43	33,821	3,078	9.10
Consumer instalment, credit card and other personal loans	19,273	2,018	10.47	18,715	1,734	9.27	17,041	1,608	9.44
Business and government loans	31,120	2,798	8.99	32,521	2,147	6.60	33,962	2,123	6.25
Assets purchased under reverse repurchase agreements	3,719	237	6.37	4,891	206	4.21	2,114	91	4.30
	97,848	8,797	8.99	99,485	7,741	7.78	86,938	6,900	7.94
International									
Residential mortgages	544	48	8.82	573	49	8.55	508	47	9.25
Consumer instalment, credit card and other personal loans	578	68	11.76	157	14	8.92	70	8	11.43
Business and government loans	16,147	1,236	7.65	15,457	1,085	7.02	15,417	1,149	7.45
	17,269	1,352	7.83	16,187	1,148	7.09	15,995	1,204	7.53
Total loans	115,117	10,149	8.82	115,672	8,889	7.68	102,933	8,104	7.87
Total earning assets	159,513	12,756	8.00	153,264	10,786	7.04	130,481	9,731	7.46
Customers' liabilities under acceptances	6,342	—	—	6,069	—	—	5,629	—	—
Other assets	7,245	—	—	7,367	—	—	6,390	—	—
Total assets	\$173,100	\$12,756	7.37%	\$166,700	\$10,786	6.47%	\$142,500	\$9,731	6.83%

(1) Average non-accrual loans, net of average specific provisions are included in loans.

(2) Average balances are calculated on a daily basis.

(3) In 1995, net interest income included \$161 million in loan fees (1994 — \$178 million; 1993 — \$145 million).

**EXCLUDING VOLATILE
FACTORS, NET INTEREST
MARGIN VIRTUALLY
UNCHANGED FROM
1994.**

months in 1994, with last year's extra month contributing \$20 million to net interest income.

However, these factors were offset by higher volumes of earning assets, mainly securities, and a lower level of non-accrual loans this year.

Excluding volatile factors such as LDC interest income, securities gains, the \$20 million of Royal Trust net interest income described above and net interest income from RBC Dominion Securities, net interest income was up \$109 million or 3% from 1994. On this basis, the net interest margin was 2.79% in 1995 versus 2.80% in 1994.

Domestic net interest income was virtually unchanged in 1995. Excluding the volatile factors just discussed (with the exception of LDC income), domestic net interest income was up \$88 million or 2% from last year due largely to higher volumes of securities and a lower level of non-accrual loans. On this basis, the domestic net interest margin was 3.09%, unchanged from a year ago. Although spreads in the mortgage business narrowed as clients opted for shorter-term mortgages and more expensive longer-term deposits, the spread between the prime rate and core deposit funding costs widened this year.

International net interest income was also largely unchanged in 1995, following a reduction of 9% in 1994. Excluding the previously-mentioned volatile factors, international net interest income was up \$21 million or 4% from last year, while the international net interest margin was 1.61% compared to 1.63% in 1994.

The bank does not anticipate a further reduction in margins in 1996. Volatile factors such as securities gains and proceeds from the sale of LDC past due interest bonds will depend on the future direction of interest rates, and on the economic and political environments in LDC countries.

TABLE 3 NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES (CONTINUED)

For the year ended October 31 (\$ millions, taxable equivalent basis)		1995			1994			1993		
		AVERAGE BALANCES (2)	INTEREST (1)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (1)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (1)	AVERAGE RATE
LIABILITIES AND SHAREHOLDERS' EQUITY										
Deposits										
Domestic										
Non-interest bearing		\$ 6,323	\$ -	-%	\$ 6,514	\$ -	-%	\$ 5,060	\$ -	-%
Interest bearing										
Consumers		79,728	4,414	5.54	75,149	3,372	4.49	64,271	2,967	4.62
Businesses and governments		19,488	1,272	6.53	19,268	840	4.36	17,436	758	4.35
Banks		474	35	7.38	811	45	5.55	502	12	2.39
		106,013	5,721	5.40	101,742	4,257	4.18	87,269	3,737	4.28
International										
Non-interest bearing		889	-	-	758	-	-	383	-	-
Interest bearing										
Consumers		4,942	244	4.94	5,803	188	3.24	3,793	156	4.11
Businesses and governments		12,825	683	5.33	12,607	510	4.05	11,640	476	4.09
Banks		12,017	722	6.01	12,640	566	4.48	11,750	554	4.71
		30,673	1,649	5.38	31,808	1,264	3.97	27,566	1,186	4.30
		136,686	7,370	5.39	133,550	5,521	4.13	114,835	4,923	4.29
Subordinated debentures		3,663	320	8.74	3,507	268	7.64	3,205	245	7.64
Other interest-bearing liabilities		6,853	359	5.24	5,190	280	5.39	2,466	109	4.42
		147,202	8,049	5.47	142,247	6,069	4.27	120,506	5,277	4.38
Acceptances		6,342	-	-	6,069	-	-	5,629	-	-
Other liabilities		10,763	-	-	10,192	-	-	8,249	-	-
		164,307	8,049	4.90	158,508	6,069	3.83	134,384	5,277	3.93
Shareholders' equity										
Preferred		2,166	-	-	2,240	-	-	2,064	-	-
Common		6,627	-	-	5,952	-	-	6,052	-	-
Total liabilities and shareholders' equity		\$173,100	\$8,049	4.65%	\$166,700	\$6,069	3.64%	\$142,500	\$5,277	3.70%
Total assets and net interest income		\$173,100	\$4,707	2.72%	\$166,700	\$4,717	2.83%	\$142,500	\$4,454	3.13%
Consisting of:										
Domestic		\$138,700	\$3,976	2.87%	\$134,100	\$3,980	2.97%	\$112,800	\$3,647	3.23%
International		34,400	731	2.13	32,600	737	2.26	29,700	807	2.72
Total		\$173,100	\$4,707	2.72%	\$166,700	\$4,717	2.83%	\$142,500	\$4,454	3.13%

PROVISION FOR CREDIT
LOSSES

The provision for credit losses fell by \$240 million or 29% in 1995, following a \$930 million or 53% decline in 1994. The provision for credit losses is reviewed on pages 47-48.

OTHER INCOME

One of the bank's key strategic priorities has been to expand its sources of revenue, particularly from fee-based businesses. Such income diversifies revenues, entails low credit risk and thus puts little pressure on capital ratios.

The bank's other income has increased from 30% of total revenues in 1991 to 35% in 1995 – well above the average for the other major Canadian banks. The acquisition in 1993 of Royal Trust, 60% of whose revenues are fee-based, is largely responsible for this increase.

As shown in Table 5 on page 31, the bank's other income in 1995 declined by \$62 million or 2% from a year ago. Following three consecutive years of record performance, capital market fees fell by \$133 million due to a cyclical downturn in the securities industry in the first half of this year. In addition, an extra month of Royal Trust's results had added

\$27 million to other income in 1994. Excluding these two factors, other income was up \$98 million or 5% in 1995.

Trading revenues rose by \$46 million or 22%, as clients sought greater protection from volatile interest rates and currency markets this year. Trading revenues exclude interest income and gains and losses relating to the bank's portfolio of investment and trading account securities, and derivatives used for the purpose of hedging the bank's various risk exposures. Both these items are included in net interest income.

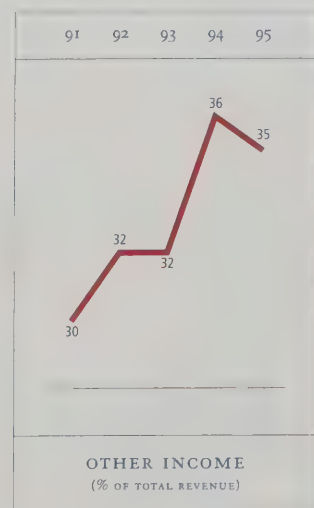


TABLE 4 ANALYSIS OF CHANGES IN NET INTEREST INCOME

For the year ended October 31 (\$ millions)	1995 vs 1994			1994 vs 1993		
	INCREASE (DECREASE) DUE TO CHANGES IN			INCREASE (DECREASE) DUE TO CHANGES IN		
	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE
Assets						
Deposits with other banks	\$117	\$ 221	\$ 338	\$ 127	\$ 31	\$ 158
Securities						
Tax exempt	(36)	14	(22)	(38)	8	(30)
Other securities	330	131	461	368	(57)	311
Net gains on securities	—	(67)	(67)	—	(169)	(169)
Loans						
Domestic						
Residential mortgages	32	58	90	1,001	(425)	576
Consumer instalment, credit card and other personal loans	53	231	284	157	(31)	126
Business and government loans	(96)	747	651	(82)	106	24
Assets purchased under reverse repurchase agreements	(57)	88	31	132	(17)	115
International						
Residential mortgages	(3)	2	(1)	5	(3)	2
Consumer instalment and other personal loans	48	6	54	8	(2)	6
Business and government loans	50	101	151	3	(67)	(64)
Total interest income	438	1,532	1,970	1,681	(626)	1,055
Liabilities						
Deposits						
Domestic						
Consumers	207	835	1,042	491	(86)	405
Businesses and governments	3	429	432	106	(24)	82
Banks	(20)	10	(10)	9	24	33
International						
Consumers	(30)	86	56	70	(38)	32
Businesses and governments	12	161	173	42	(8)	34
Banks	(27)	183	156	51	(39)	12
Subordinated debentures	18	34	52	23	—	23
Other interest-bearing liabilities	100	(21)	79	168	3	171
Total interest expense	263	1,717	1,980	960	(168)	792
Net interest income	\$175	\$ (185)	\$ (10)	\$ 721	\$(458)	\$ 263
Consisting of:						
Domestic	\$136	\$ (140)	\$ (4)	\$ 647	\$(314)	\$ 333
International	39	(45)	(6)	74	(144)	(70)
Total	\$175	\$ (185)	\$ (10)	\$ 721	\$(458)	\$ 263

(1) Volume/rate variance is allocated based on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

Revenues from card services were \$22 million or 9% higher this year, excluding the \$2 million impact of an extra month of Royal Trust results in 1994. This year, credit card and debit card usage increased, the latter significantly. Debit card fees were \$27 million this year versus \$13 million in 1994 and \$6 million in 1993.

Deposit and payment service charges increased \$20 million or 3%, after growing by 2% in 1994. An increase in banking machine revenues, partially reflecting higher transaction volumes, accounted for \$8 million of the increase. Fees from payroll processing were up \$4 million or 10%. Another \$4 million was attributable to deposit service charges, which rose due to higher retail deposit transaction volumes.

Retail deposit service charge rates, however, remained frozen throughout the year. Royal Bank was the first Canadian bank to freeze retail service charges in 1992 and became the last to remove its freeze when it announced changes to some fees effective November 1, 1995.

TABLE 5 OTHER INCOME

For the year ended October 31 (\$ millions)	1995	1994	1993	1992	1991
Deposit and payment service charges					
Deposit accounts	\$ 486	\$ 482	\$ 486	\$ 500	\$ 467
Payroll processing	46	42	38	36	33
Other payment services	149	137	125	118	101
	681	661	649	654	601
Capital market fees	434	567	456	356	258
Investment management and custodial fees	286	278	101	82	69
Card service revenues	278	258	203	183	197
Trading revenues	251	205	228	239	238
Mutual fund revenues	190	202	64	37	16
Credit fees	156	156	152	152	162
Foreign exchange revenues, other than trading	140	134	107	115	101
Revenues from insurance-related activities	104	100	61	32	31
Loss on disposal of premises and equipment	(6)	(5)	(14)	(10)	(4)
Other	76	96	63	71	68
Total	\$2,590	\$2,652	\$2,070	\$1,911	\$1,737

TABLE 6 ASSETS UNDER ADMINISTRATION AND MANAGEMENT

As at September 30 (\$ millions)	1995	1994	1993
Assets under administration (1)			
Institutional trust and securities custody	\$326,300	\$274,700	\$218,700
Personal trust and securities custody	68,600	58,200	43,900
Retail mutual funds	11,900	12,900	10,300
Mortgage-backed securities	900	1,000	1,400
Total	\$407,700	\$346,800	\$274,300
Assets under management (2)			
Institutional trust and securities custody	\$15,700	\$14,700	\$11,800
Personal trust and securities custody	12,800	11,500	11,000
Retail mutual funds	11,900	12,900	10,300
Total	\$40,400	\$39,100	\$33,100

(1) Assets which are beneficially owned by clients and, therefore, are not reported on the bank's balance sheet. Services associated with these assets include the safekeeping of securities, the collection of income from securities, the settlement of transactions and record-keeping.

(2) Assets which are beneficially owned by clients and, therefore, are not reported on the bank's balance sheet. Services associated with these assets include the selection of investments and the provision of investment advice. A significant portion of these assets are also administered by the bank.

Investment management and custodial fees were up \$18 million or 7% from a year ago, excluding \$10 million relating to last year's extra month of Royal Trust results. Assets under management rose by 3% to end the year at more than \$40 billion.

Foreign exchange revenues, other than trading, which relate principally to revenues generated from clients in the bank's branches, were up \$6 million or 4%.

Mutual fund fees were \$6 million lower than in 1994, excluding a \$6 million impact from last year's extra month of Royal Trust results. The decline reflected a \$1.5 billion reduction in average mutual fund assets this year to \$11.6 billion in 1995. After declining to \$11.2 billion at March 31, 1995, when higher interest rates led investors to opt for the bank's guaranteed investment certificates and other investment accounts, asset volumes increased later in the year.

The bank expects most categories of other income to record growth in 1996. The extent of this growth will largely depend on conditions in the securities industry, and on the direction and volatility of interest and exchange rate movements.

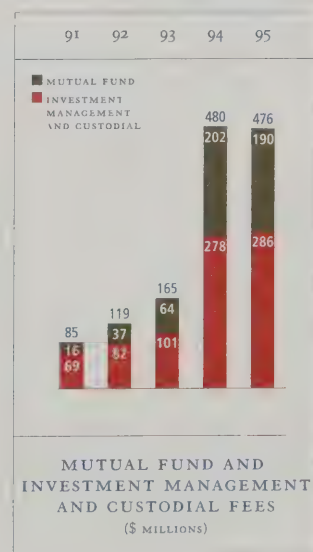


TABLE 7 NON-INTEREST EXPENSES

For the year ended October 31 (\$ millions)	1995	1994	1993	1992	1991
Human resources					
Compensation	\$2,243	\$2,368	\$2,034	\$1,901	\$1,840
Benefits	320	307	276	259	232
	2,563	2,675	2,310	2,160	2,072
Occupancy					
Premises rent	256	247	227	223	206
Rental income from properties	(62)	(65)	(64)	(68)	(71)
	194	182	163	155	135
Premises repairs and maintenance	95	110	101	96	91
Depreciation	77	91	70	64	59
Property taxes	49	55	46	50	47
Energy	38	40	38	35	32
	453	478	418	400	364
Equipment					
Depreciation	283	244	207	203	188
Computer rental and maintenance	200	197	167	152	126
Office equipment rental and maintenance	23	19	22	22	21
	506	460	396	377	335
Communications					
Telecommunications	140	140	120	122	120
Postage and courier	130	128	111	103	102
Marketing and public relations	103	96	72	70	66
Stationery and printing	88	86	74	77	84
	461	450	377	372	372
Other					
Professional fees	147	113	86	88	74
Business and capital taxes	116	117	120	136	112
Deposit insurance	116	100	62	53	50
Travel and relocation	83	71	57	57	63
Amortization of goodwill	38	48	35	19	18
Employee training	34	27	24	25	28
Donations	16	17	14	14	12
Other	104	83	80	57	88
	654	576	478	449	445
Non-interest expenses before restructuring costs	4,637	4,639	3,979	3,758	3,588
Restructuring costs	—	—	410	130	—
Total	\$4,637	\$4,639	\$4,389	\$3,888	\$3,588

NON-INTEREST EXPENSES

In 1995, non-interest expenses stayed at the previous year's level.

However, core non-interest expenses were up \$80 million or 2% in 1995, with \$38 million attributable to higher deposit insurance premiums and the impact of a moratorium on banks' access to research and development tax credits. Core expenses exclude RBC Dominion Securities' costs, \$44 million of additional expenses related to an acceleration in the depreciation of personal

computers and automated banking machines this year, and an extra month of expenses for Royal Trust in 1994 totalling \$44 million. This \$44 million consisted of \$19 million of human resource costs, \$7 million of occupancy costs, \$5 million of equipment expenses, \$4 million of communications costs and \$9 million of other expenses.

As in the past, human resource costs accounted for more than 50% of total non-interest expenses in 1995.

Compensation expenses were down \$125 million or 5% this year, reflecting lower average business volumes at RBC Dominion Securities (whose compensation is closely tied to performance), lower average staff levels at the bank due to downsizing initiatives instituted earlier, and one less month of expenses for Royal Trust. Benefit costs were \$13 million or 4% higher due to an increase in benefit claims.

At the beginning of 1995, the bank had expected to reduce its workforce by 1,000 positions during the year. However, at year-end 1995, the bank's workforce of 49,011 was down 197 positions from the end of 1994.

Two major factors contributed to the higher than expected staff levels this year. First, demand for telephone banking from the bank's Royal Direct national telephone banking service in Moncton, New Brunswick, far exceeded expectations. Second, RBC Dominion Securities expanded its presence in New York and, in the second half of 1995, increased its penetration of the higher-end retail market. Growth in these areas required higher staff levels than had previously been anticipated.

By the end of 1996, the bank's objective is to have approximately 1,000 fewer positions. This reduction, to be achieved largely through normal attrition, will result from the increasing use of alternative delivery channels and further streamlining of back office processes through new technology applications, including a new cheque image capture and recognition system.

Occupancy costs declined \$25 million or 5% as the number of domestic service delivery units fell by 19 this year and 135 units in 1994. Additional opportunities to reduce the traditional branch network will be pursued in the future. The bank expects reductions in each of the next two years exceeding the level achieved in 1995.

Equipment costs were up \$46 million or 10%, reflecting the previously-mentioned

acceleration in the depreciation of the bank's personal computers and banking machines.

Communication expenses were up \$11 million or 2%, largely due to higher marketing and public relations costs.

Other expenses rose by \$78 million or 14%, of which \$38 million related to the previously-mentioned moratorium on banks' access to the research and development tax credits (included in "other" other expenses) and higher deposit insurance premiums. The latter were up \$16 million, reflecting the full-year impact of an increase in deposit insurance rates, effective May 1, 1994, to .17% of insurable deposits from the previous level of .13%. In addition, the bank's insurable deposits increased by approximately \$3 billion to \$68 billion at the end of 1995.

In addition, the bank recorded higher professional fees relating to its cost reduction initiatives. Commitment to employee training also resulted in higher expenses this year.

The bank's productivity ratio (non-interest expenses as a percentage of total revenue) was 63.5% in 1995 compared to 63.0% a year ago.

Excluding RBC Dominion Securities' expenses and unusual LDC gains in both 1995 and 1994, this year's higher depreciation expenses, and the extra month of Royal Trust's revenues and expenses a year ago, the productivity ratio was 61.9% in 1995 versus 62.5% in 1994.

The bank expects expense growth in 1996 to be in line with the rate of inflation. While there will be further streamlining of the branch network, the bank will continue to invest in alternative

delivery channels and high-growth fee-based businesses.

INCOME AND OTHER TAXES

As shown in Table 8 on page 34, total income and other taxes were \$1,260 million in 1995, up from \$1,055 million in 1994 due to higher earnings and an increase in the bank's effective tax rate.

Income taxes were \$817 million this year compared to \$609 million a year ago. This year's amount comprised \$755 million as reported in the Statement of Income, \$22 million relating to the hedging of investments in foreign operations, and a taxable equivalent adjustment of \$40 million. The \$40 million represents income taxes that would have been paid on interest received from low-rate loan substitute securities if it was taxable.

Loan substitute securities comprise income debentures, small business bonds and qualifying preferred shares. As shown in Note 3 to the financial statements on page 67, the bank had a \$662 million portfolio of such securities at October 31, 1995 on which it earns substantially lower income than on loans bearing similar risk, but this income is not taxed.

The bank's effective tax rate was 37.0% in 1995, up from 35.2% in 1994 due largely to new federal tax measures discussed below. As outlined in Note 12 to the financial statements on page 73, the bank's effective tax rate differs from the composite federal and provincial statutory income tax rate of 42.7% due to lower tax rates for certain domestic and international subsidiaries and the tax-exempt nature of its loan substitute securities.

◆
CORE NON-INTEREST
EXPENSES UP 2%
IN 1995.
◆

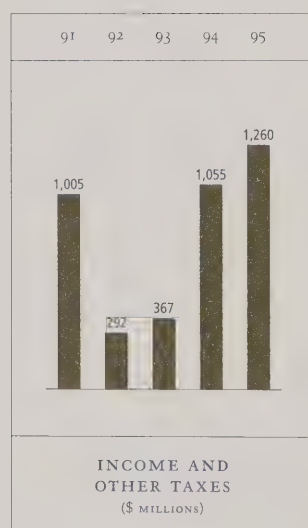
◆
THE BANK EXPECTS
EXPENSE GROWTH
IN 1996 TO BE IN LINE
WITH THE RATE OF
INFLATION.
◆

TABLE 8 INCOME AND OTHER TAXES

For the year ended October 31 (\$ millions)	1995	1994	1993	1992	1991
Income taxes					
As reported in the financial statements					
In income	\$ 755	\$ 655	\$ (5)	\$ (65)	\$ 495
In retained earnings (1)	22	(95)	(90)	(128)	66
	777	560	(95)	(193)	561
Taxable equivalent adjustment	40	49	61	65	73
	817	609	(34)	(128)	634
Other taxes					
Payroll taxes	145	144	123	121	110
Goods and services tax, and sales taxes	133	130	112	113	102
Provincial capital taxes	77	77	76	88	67
Property taxes	49	55	46	50	47
Business taxes	39	40	44	48	45
	443	446	401	420	371
Total	\$1,260	\$1,055	\$367	\$292	\$1,005
Effective tax rate (2)	37.0%	35.2%	—	—	33.1%

(1) The income taxes reported in retained earnings principally relate to the hedging of foreign currency exposure on foreign operations.

(2) Income taxes reported in income as a percentage of net income before taxes. The tax rates for 1993 and 1992 are not meaningful.



Note 12 also shows that the total income tax charge of \$777 million, before the taxable equivalent adjustment, included \$386 million of current income taxes, most of which were payable to Canadian federal and provincial governments, and \$391 million of deferred income taxes. The deferred taxes contributed to a \$344 million reduction in the net deferred tax asset between year-end 1994 and October 31, 1995. Deferred taxes arise from timing differences in the determination of income for financial statement purposes and for tax reporting purposes.

The bank's net deferred tax asset of \$1.3 billion, shown in Note 12 to the financial statements on page 74, relates mainly to prior years' credit losses recorded by the parent bank (largely in 1992 and 1993) that could not be claimed since the parent bank had insufficient taxable income. In those years, earnings came largely from

subsidiaries which paid taxes based on their taxable income. Canada does not allow tax consolidation, whereby losses in one group company can be applied against taxable income in other group companies. A portion of these credit losses was claimed by the parent bank against 1994 and 1995 taxable earnings. It is anticipated that these tax deductions will continue to be claimed in future years, thereby further reducing the deferred tax asset.

Table 8 also shows that other taxes, that is those not specifically tied to income, were \$443 million in 1995, virtually unchanged from the 1994 level.

Provincial capital taxes remained at \$77 million this year. It should be noted that few countries impose capital taxes and, of those that do, Canada's rates on financial institutions are among the highest in the world.

Business taxes, levied by municipalities, were \$39 million, largely unchanged from last year.

Property taxes were down \$6 million, reflecting a more streamlined service delivery network.

Payroll taxes include the bank's contributions to the Canada and Quebec pension plans, provincial health programs and unemployment insurance. These taxes were basically unchanged this year.

Recent Developments: The federal government's February 1995 budget contained a number of tax measures affecting bank taxes, including a 12.5% increase in the Large Corporations Tax rate (a tax levied on the capital of corporations with capital exceeding \$10 million), a 33% rise in the surtax on federal corporate tax on taxable income, a new temporary capital tax surcharge applicable only to deposit-taking financial institutions, and a moratorium on banks' research and development tax credit claims.

TABLE 9 CONDENSED BALANCE SHEET

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Assets					
Cash resources	\$ 17,710	\$ 16,449	\$ 10,874	\$ 10,938	\$ 8,820
Securities	32,705	27,695	24,011	16,146	13,436
Residential mortgages	45,088	44,086	43,738	32,607	29,103
Consumer instalment, credit card and other personal loans	20,268	19,758	19,508	17,928	17,290
Business and government loans	49,630	46,283	47,919	48,995	51,351
Assets purchased under reverse repurchase agreements	4,591	5,259	5,304	607	600
Customers' liability under acceptances	6,300	6,205	6,302	5,737	7,210
Other	7,360	7,344	7,285	5,335	4,542
	\$183,652	\$173,079	\$164,941	\$138,293	\$132,352
Liabilities and shareholders' equity					
Consumer deposits	\$ 89,929	\$ 85,214	\$ 84,696	\$ 67,648	\$ 64,332
Deposits from businesses, governments and banks	53,562	50,601	45,703	44,574	40,690
Obligations related to assets sold under repurchase agreements	4,090	5,341	2,533	787	641
Obligations related to securities sold short	7,128	5,569	5,362	3,628	2,650
Other liabilities and acceptances	16,377	14,288	15,275	11,023	13,201
Subordinated debentures	3,534	3,477	3,442	3,127	3,076
Shareholders' equity	9,032	8,589	7,930	7,506	7,762
	\$183,652	\$173,079	\$164,941	\$138,293	\$132,352

DISCUSSION OF THE
BALANCE SHEET

OVERVIEW

Note 1 to the financial statements on pages 64-65 presents significant accounting policies which largely relate to the bank's loans, securities and other balance sheet items.

As shown in Table 3 on page 28, average assets in 1995 were \$173.1 billion, an increase of \$6.4 billion or 4% from 1994. This was mainly due to higher volumes of liquid assets, reflecting limited opportunities to add profitable loan business.

As shown in Table 9, total assets at October 31, 1995 were \$10.6 billion or 6% higher than at year-end 1994, reflecting higher volumes of loans and securities.

CASH RESOURCES AND
SECURITIES

Cash resources, consisting largely of deposits with other banks, were up \$1.3 billion in 1995, while securities were \$5.0 billion or 18% higher.

Investment account securities rose by \$3.4 billion or 22% in 1995, due largely to an increase in the bank's holdings of Canadian government bonds. Trading account securities, which are purchased for resale over a short period of time and are shown on the balance sheet at their market value, were \$1.8 billion or 17% higher, reflecting larger holdings of securities.

As shown in Note 3 to the financial statements on page 67, the market value of the bank's investment account securities exceeded their carrying value by \$231 million at the end of 1995, compared to a \$272 million shortfall at October 31, 1994.

Strong gains in the Canadian bond market during the latter part of the year accounted for the increase.

LOANS AND BANKERS'
ACCEPTANCES

Total loans at October 31, 1995 were up \$4.2 billion or 4% from a year ago.

Residential mortgages grew by \$1.0 billion or 2% in 1995, despite higher short-term interest rates in 1995 and the use of aggressive pricing strategies by a number of competitors. The average one-year mortgage rate was 8.7% during 1995 compared to 8.0% a year ago.

The bank's market share of residential mortgages, at 14.0% among all Canadian financial institutions, continued to lead the Canadian financial services industry by a wide margin.

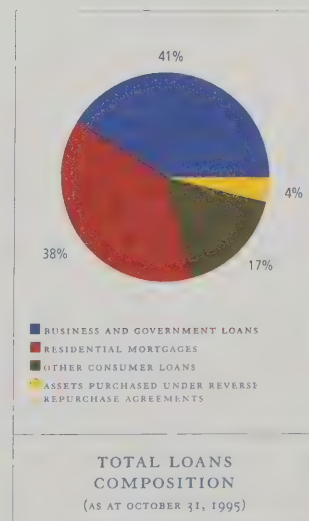


TABLE 10 CONSUMER LOANS AND DEPOSITS

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Consumer loans (1)	\$ 65,356	\$ 63,844	\$ 63,246	\$ 50,535	\$46,393
Total loans	\$119,577	\$115,386	\$116,469	\$100,137	\$98,344
Consumer loans as a percentage of total loans	55%	55%	54%	50%	47%
Consumer deposits	\$ 89,929	\$ 85,214	\$ 84,696	\$ 67,648	\$ 64,332
Total deposits	\$143,491	\$135,815	\$130,399	\$112,222	\$105,022
Consumer deposits as a percentage of total deposits	63%	63%	65%	60%	61%

(1) Residential mortgages, consumer instalment, credit card and other personal loans.

CONSUMER DEPOSITS
TO TOTAL DEPOSITS
HIGHEST IN CANADIAN
BANKING SECTOR.

It was, however, down slightly from 14.3% at year-end 1994 as mortgage volumes at Royal Trust declined. Some of these mortgages had been granted at discounted rates prior to the bank's acquisition of this subsidiary in 1993. At renewal, they were not offered at the same discounted terms.

Consumer instalment, credit card and other personal loans were \$510 million or 3% higher in 1995, following a \$250 million or 1% increase a year ago. The bank continued to lead the Canadian financial services industry with a market share of 16.3%. However, this was down from 17.2% in 1994 due to the bank's focus on profitability in an environment characterized by intense price competition.

As outlined in Table 10, consumer loans have grown from 47% of total loans in 1991 to 55% in 1995. This development is positive given the very low loss ratio on residential mortgages and the importance of all consumer loans in developing profitable client relationships.

Business and government loans were up \$3.3 billion or 7%, reflecting increases of \$3.4 billion in call loans and other short-term credits, which are fully secured by government securities. Loans to banks were up \$400 million, while other business loans declined by \$500 mil-

lion, partially reflecting a bulk sale of commercial real estate loans completed towards year end. This sale had no significant impact on this year's earnings. Details about this bulk sale are provided on page 40.

Bankers' acceptances were \$95 million or 2% higher in 1995 following a 2% decline a year ago, as a wider spread between the rates on these instruments and the prime rate made them more attractive to borrowers this year.

For 1996, the bank expects residential mortgage and other consumer loan volumes to show higher growth than in 1995, based on expectations of lower interest rates and the bank's commitment to increasing its share of these markets in Canada through innovative product development and a focus on sales, quality service and advice. However, business loans may not show much growth as the bank continues to focus on reducing industry concentrations and weaker loan exposures.

DEPOSITS

Total deposits increased \$7.7 billion or 6% from a year ago, following a 4% increase in 1994.

Consumer deposits rose by \$4.7 billion or 6% in 1995, as higher interest rates led investors to shift from mutual funds to guaranteed investment certificates (GICs) and

other investment accounts. As shown in Note 8 to the financial statements on page 70, fixed-term consumer deposits (including GICs and term deposits) increased by close to \$6.0 billion, while consumer deposits payable after notice were \$1.3 billion lower.

Deposits by businesses, governments and banks were up \$3.0 billion or 6% from a year ago, after rising 11% between 1993 and 1994. This year's increase reflected higher liquidity levels among business customers, particularly in the fourth quarter.

As shown in Table 10, consumer deposits were 63% of total deposits at October 31, 1995, unchanged from a year ago and the highest such ratio in the Canadian banking sector. This is a significant competitive advantage since consumer deposits are more stable and less expensive than wholesale funds. With a consumer deposit market share of 17.1% among all Canadian financial institutions, Royal Bank is the market leader by a wide margin.

The bank's domestic Canadian dollar consumer deposits accounted for 77% of total domestic Canadian dollar deposits at year end.

RISK MANAGEMENT REVIEW OVERVIEW

Improving its credit quality and risk profile remains one of the bank's key strategic priorities. Among the risks which must be effectively managed to avoid losses are credit, environmental, liquidity, market and operational risks.

The bank employs an integrated approach to risk management which recognizes the close relationship between these different forms of risk. Risk management specialists work in partnership with the bank's eleven business groups, twelve geographic areas and other functions in identifying and assessing risk, ensuring it is being effectively managed, and monitoring results.

Forward-looking strategies are established for clients, industry sectors and country exposures, as well as for market and liquidity risks related to the bank's balance sheet and off-balance sheet activities. Concentrations are reduced to maintain a properly balanced portfolio and early warning systems are used to detect problems before losses occur.

Highly skilled and motivated people are crucial for effective risk management. The bank seeks to hire and retain the best risk managers, and gears its training, compensation and performance review practices to encouraging and reinforcing a risk management culture throughout the organization.

At the top of the bank's risk management structure is the Risk Policy Committee of the Board of Directors, which reviews major risk management policies and strategies and oversees senior management activities to control risk.

Under its supervision, management's Group Risk Committee, chaired by the chief executive officer, determines the overall risk management policies and strategies for the bank and reviews specific exposures that exceed certain size and risk levels. Its members include the bank's four vice-chairmen and the executive vice-presidents of Risk Management and Corporate Treasury.

The Group Risk Committee and the Risk Policy Committee review significant exposures to corporate, bank and sovereign borrowers and review strategic limits for countries and industries. The significance of the exposure is determined by the risk rating of the respective borrower, country or industry. All problem borrowers with exposures in excess of \$100 million are reviewed by both committees.

Reporting to the Group Risk Committee are the Risk Management Committee, which creates policies and strategies relating to credit risk exposures, and the Asset and Liability Committee (ALCO). Chaired by the head of a newly-formed Corporate Treasury division, ALCO oversees all aspects of market and liquidity risk, including the bank's interest rate risk management activities.

Liquidity and funding policies and procedures proposed by the bank's Corporate Treasury group are reviewed by ALCO, approved by the Group Risk Committee and also reviewed annually by the Audit Committee on behalf of the board of directors.

Global limits for market risk exposure are established through a formal process which includes an assessment of the risk/reward trade-off

for the product or activity and the development of a recommended limit for the maximum risk exposure. These limits are reviewed by ALCO and approved by the Group Risk Committee.

The bank's interest rate risk management policies are also reviewed by ALCO and approved annually by the Audit Committee on behalf of the board of directors.

CREDIT RISK MANAGEMENT

Credit losses can occur if a borrower or counterparty does not fully honour its contractual obligations to the bank. These obligations can involve loans, commitments, guarantees and derivative contracts with positive market values. Credit risk related to derivatives is discussed on pages 53-54.

Significant credit losses occurred in 1992 and 1993, due largely to a concentration of exposure to commercial real estate and to some large individual accounts. Since then, exposures to weaker sectors and borrowers have been significantly reduced, forward-looking strategies have been set for the bank's 650 accounts with exposures of over \$50 million, the credit approval process has been streamlined, training programs improved, and risk and account managers made more accountable for credit quality.

In seeking to improve the quality of its credit portfolio, the bank is committed to a number of important principles, among them:

- Reducing risk by spreading it effectively across clients, industry sectors, terms, products and geographic areas.
- Not sacrificing portfolio quality for growth, even in good economic times.

THE BANK GEARS
ITS TRAINING,
COMPENSATION
AND PERFORMANCE
REVIEW PRACTICES
TO ENCOURAGING
AND REINFORCING
A RISK MANAGEMENT
CULTURE THROUGHOUT
THE ORGANIZATION.

TABLE II EARNING ASSETS BY LOCATION OF ULTIMATE RISK (1)							
As at September 30 (\$ millions)		1995	1994	1993	1992	1991	
Canada		\$126,377	\$123,567	\$118,695	\$ 98,662	\$ 93,748	77.2%
United States		14,651	13,961	13,757	11,637	8,666	8.9
Europe							
United Kingdom		6,287	5,896	5,826	4,978	4,857	3.8
Germany		2,207	1,768	1,154	1,130	910	1.4
France		1,477	1,506	1,498	1,249	1,313	.9
Switzerland		560	1,191	686	425	766	.4
Other		2,205	2,469	2,526	2,309	2,132	1.3
		12,736	12,830	11,690	10,091	9,978	7.8
Latin America and Caribbean							
Brazil		1,231	1,231	1,234	1,202	1,128	.7
Bahamas		1,033	962	1,025	889	821	.6
Argentina		599	442	385	385	394	.4
Mexico		580	741	572	857	606	.4
Puerto Rico		372	385	435	861	887	.2
Other		1,800	1,519	1,443	1,163	1,076	1.1
		5,615	5,280	5,094	5,357	4,912	3.4
Asia Pacific							
Japan		2,725	2,060	1,699	1,910	1,625	1.7
Other		2,593	2,216	1,589	1,279	1,070	1.6
		5,318	4,276	3,288	3,189	2,695	3.3
Country risk provision		(929)	(940)	(1,107)	(1,383)	(1,509)	(.6)
Total		\$163,768	\$158,974	\$151,417	\$127,553	\$118,490	100.0%

(1) Earning assets refers to loans, securities, and deposits with other banks (including assets funded in local currencies). The location of ultimate risk is the country of origin of the borrower/issuer, or of another entity which has guaranteed performance on the exposure.

FORWARD-LOOKING
CLIENT STRATEGIES
INTRODUCED FOR
MID-MARKET
COMMERCIAL
ACCOUNTS.

- Being adequately compensated for the risks the bank assumes.
- Employing consistent risk measurements across different businesses and products.

Based on these and other principles, a number of additional steps were taken in 1995 to improve credit risk management, including those outlined below.

In early 1995, the bank completed the task, started in 1994, of developing forward-looking strategies for 50 industry sectors, based on their size, performance, future outlook and capital underpinning. Also this year, the bank tiered, on the basis of credit quality, all major existing and potential borrowers in 38 of the largest industry sectors to which it lends. From this exercise, a set of financial strength indicators was developed for each industry. These indicators are used to monitor changes in borrowers' risk profiles.

The process of establishing forward-looking client strategies was introduced for mid-market commercial accounts in 1995. By year end, strategies had been developed for about half of the bank's nearly 7,000 mid-market commercial accounts representing authorized exposures of between \$5-\$50 million, with the remainder to be completed in early 1996.

Also in 1995, more risk managers were moved from head office and district locations to business banking centres. Approximately 80% of domestic business credit applications are now reviewed by the bank's more than 100 risk managers located in 49 business centres across Canada. This is increasing support and responsiveness to clients, developing better teamwork between account and risk managers, and giving risk managers a better understanding of regional and local perspectives.

To enhance expertise and ensure greater consistency in risk assessment, the head office Risk Management group was reorganized into teams of geographic and industry specialists during 1995, matching a similar reorganization in the bank's Multinational group a year ago. As a result, most business clients in major industries with exposures of \$25 million or more now deal only with risk and account managers who specialize in their industry.

A new credit policy manual was completed this year, which provides a comprehensive list of credit principles, rules and guidelines customized for each business group with credit risk. The new manual is expected to contribute to a stronger link between risk management and the marketing and business planning functions.

TABLE 12 LOANS BY INDUSTRY AND BY LOCATION OF ULTIMATE RISK,
NET OF SPECIFIC AND GENERAL PROVISIONS

As at September 30 (\$ millions)	1995	1994	1993	1992	1991	1995	1991
Domestic							
Atlantic provinces	\$ 6,200	\$ 6,092	\$ 6,165	\$ 6,168	\$ 5,317	5.3%	5.5%
Quebec	12,399	12,378	12,801	11,123	10,912	10.6	11.2
Ontario	45,100	44,674	45,545	38,157	37,846	38.5	39.0
Prairie provinces	15,594	14,803	14,883	13,150	12,734	13.3	13.1
British Columbia	17,143	16,829	16,056	13,605	11,751	14.7	12.1
	96,436	94,776	95,450	82,203	78,560	82.4	80.9
Consisting of:							
Residential mortgages	44,358	43,632	43,244	31,669	28,226	37.9	29.1
Consumer instalment, credit card and other personal loans	19,433	18,512	18,265	17,041	16,451	16.6	16.9
Financial institutions							
Assets purchased under reverse repurchase agreements	1,706	1,477	780	468	452	1.5	.5
Other	4,434	5,596	4,142	3,169	3,065	3.8	3.1
Commercial real estate	4,234	4,534	5,468	6,539	7,098	3.6	7.3
Manufacturing	3,216	2,248	2,521	2,383	2,629	2.7	2.7
Agriculture	3,151	2,984	3,004	2,953	2,939	2.7	3.0
Forestry and paper products	2,400	2,608	3,082	3,560	3,590	2.1	3.7
Commercial mortgages	2,136	2,097	2,376	691	337	1.8	.3
Retail merchandising	1,936	1,912	1,926	2,080	2,223	1.7	2.3
Wholesale merchandising	1,918	1,849	2,031	2,253	2,490	1.6	2.6
Mining and energy	1,100	1,191	1,292	1,464	1,404	.9	1.5
Transportation and communication	1,009	986	1,278	1,334	1,281	.9	1.3
Other	5,405	5,150	6,041	6,599	6,375	4.6	6.6
	96,436	94,776	95,450	82,203	78,560	82.4	80.9
International							
Canadian risk	1,445	1,519	1,051	1,339	1,622	1.2	1.7
United States	8,772	8,966	10,284	9,592	7,360	7.5	7.6
Europe	4,824	4,611	5,046	5,313	5,396	4.1	5.6
Latin America and Caribbean	3,240	4,341	4,215	4,791	4,484	2.8	4.6
Asia Pacific	2,535	2,057	1,776	1,489	1,170	2.2	1.2
Country risk provision*	(263)	(297)	(1,038)	(1,376)	(1,509)	(.2)	(1.6)
	20,553	21,197	21,334	21,148	18,523	17.6	19.1
Total	\$116,989	\$115,973	\$116,784	\$103,351	\$97,083	100.0%	100.0%

* The country risk provision shown has been reduced by \$666 million (1994 - \$643 million; 1993 - \$69 million; 1992 - \$7 million), which represents the amount deducted from securities in respect of restructured collateralized bonds of less developed countries.

An improved credit watchlist was developed this year for introduction across the bank in early 1996. It will provide an up-to-date status report on all potential problem accounts and allow for immediate feedback from account and risk managers in the event that a client's circumstances change.

In addition to these new initiatives, a more detailed grading system, including a series of benchmarks, was added to the bank's risk assessment framework in 1995. The framework is used to establish client risk ratings

through the analysis of company and industry factors, management quality, financial statements and the company's access to alternative sources of capital.

Improvements were also made to the bank's credit risk measurement this past year. For example, it began using an analytical tool that assesses the likelihood of default on the basis of a company's equity and asset volatility and the market value of its debt.

In addition, new quantitative approaches to portfolio risk analysis have been employed to better assess the

impact of diversification, and to measure both expected and unexpected losses in the portfolio. These techniques also permit the bank to identify loans that contribute greater than average risk to the portfolio. This analysis has helped to refine the calculation of risk-adjusted capital, the basis on which the adequacy of returns is assessed. Using this procedure, if returns are deemed inadequate, exposures are managed down and clients are encouraged to utilize alternative funding sources such as the capital markets.

FIRST BULK SALE
OF COMMERCIAL REAL
ESTATE IN CANADA
COMPLETED IN 1995.

As indicated in Table 12 on page 39, no domestic industry sector accounted for more than 5.3% of total net loans compared to 6.1% in 1994. In addition, the bank's loans to domestic commercial real estate were reduced from 3.9% of total loans in 1994 to 3.6% in 1995. Management is satisfied with the considerable progress made in lowering the bank's outstandings to commercial real estate, but feels that further reductions in borrower loan concentrations are desirable.

With regard to earning assets by location, Table 11 on page 38 shows that with the exception of Canada and the United States, no country accounts for more than 4% of total earning assets.

ENVIRONMENTAL RISK
MANAGEMENT

While the bank's operations do not pose a significant threat to the environment, there are a number of environmental risks that must be carefully managed to avoid losses.

As a lender, the bank can incur losses if a borrower cannot repay its loans due to the expense of an environmental clean-up, or if the bank becomes directly liable for a clean-up because it is deemed to have taken ownership or control of contaminated property in order to recover its funds. In some cases, this expense can extend beyond the principal value of the loan and the collateral backing it.

To manage such environmental risks, the bank has developed detailed environmental risk assessment criteria and procedures and provided extensive training on their use to all account managers.

The bank also established an Environmental Risk Management Group in 1993, which works closely with a cross-section of the bank's business and operational units to improve its policies and practices relating to the environment. It also works with external specialists in conducting environmental investigations when considering new exposures and resolving existing credits.

In addition, bank officers serve on a number of government working groups in an effort to promote fair and consistent environmental liability laws.

The bank must conduct its own operations in compliance with environmental laws. In 1995, the bank established an executive level position, within real estate operations, to develop and implement a formal system to ensure material compliance and coordinate efforts to conserve energy, reduce, reuse and recycle paper and other materials and control wastes.

COMMERCIAL REAL ESTATE

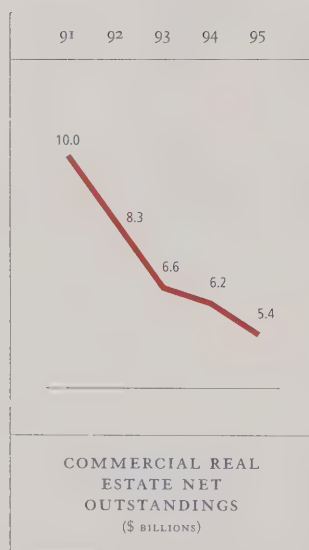
Over the last four years, considerable progress has been made in reducing the bank's outstandings to commercial real estate, a sector that was hit particularly hard during the last recession and was responsible for the large increase in the bank's problem

loans and loan losses in 1992 and 1993. Through a combination of restructurings, repayments, loan sales and write-offs, the bank's commercial real estate outstandings have been reduced from a high of just over \$10 billion in 1991 to \$6.2 billion at October 31, 1995. These outstandings consist of loans, bankers' acceptances and off-balance sheet credit to construction, development and management companies worldwide.

Improving the quality of this portfolio and selectively reducing its size has been the responsibility of a special head office group. In 1995, this group oversaw the first bulk sale of commercial real estate outstandings in the Canadian financial services industry. The sale, completed in October 1995, involved commercial real estate loans and property, mainly in metropolitan Toronto, the rest of Ontario and the U.S.A. The sale served to reduce the bank's total commercial real estate gross outstandings and gross non-accrual loans by \$382 million and \$325 million respectively.

At October 31, 1995, the bank owned \$135 million of foreclosed real estate, down from \$166 million last year.

Also, during the past year, the bank analyzed the condition and future prospects of all major Canadian, and some international, commercial real estate markets. In addition, it developed a set of key financial strength indicators for commercial real estate companies based on a review of major Canadian development and management firms.



COMMERCIAL REAL
ESTATE NET
OUTSTANDINGS
(\$ BILLIONS)

TABLE 13 COMMERCIAL REAL ESTATE

As at October 31 (\$ millions)

Outstandings	GROSS OUTSTANDINGS		ALLOWANCE FOR CREDIT LOSSES*		NET OUTSTANDINGS		ALLOWANCE / GROSS OUTSTANDINGS	
	1995	1994	1995	1994	1995	1994	1995	1994
Atlantic Canada	\$ 115	\$ 128	\$ 2	\$ 4	\$ 113	\$ 124	2%	3%
Quebec	675	758	31	18	644	740	5	2
Metropolitan Toronto	2,188	2,798	523	885	1,665	1,913	24	32
Rest of Ontario	815	1,021	20	67	795	954	2	7
Prairie provinces	375	358	3	2	372	356	1	1
British Columbia	762	807	13	22	749	785	2	3
Total Canada	4,930	5,870	592	998	4,338	4,872	12	17
United States	797	1,013	103	84	694	929	13	8
Other international	435	494	41	58	394	436	9	12
Total	\$6,162	\$7,377	\$ 736	\$1,140	\$5,426	\$6,237	12%	15%

Non-Accrual Loans (NALs)	GROSS NALs		NET NALs		NET NALs / NET OUTSTANDINGS		COVERAGE RATIO**	
	1995	1994	1995	1994	1995	1994	1995	1994
Atlantic Canada	\$ 5	\$ 4	\$ 3	—	3%	—	40%	100%
Quebec	91	122	60	\$ 104	9	14%	34	15
Metropolitan Toronto	917	1,436	394	551	24	29	57	62
Rest of Ontario	59	147	39	80	5	8	34	46
Prairie provinces	11	30	8	28	2	8	27	7
British Columbia	43	70	30	48	4	6	30	31
Total Canada	1,126	1,809	534	811	12	17	53	55
United States	130	200	27	116	4	12	79	42
Other international	85	85	44	27	11	6	48	68
Total	\$1,341	\$2,094	\$ 605	\$ 954	11%	15%	55%	54%

* Includes the real estate general provision of \$100 million in 1995 (1994 – \$200 million).

** Allowance for credit losses as a percentage of related gross non-accrual loans.

As shown in Table 13, at October 31, 1995 the bank's gross commercial real estate outstandings were down \$1.2 billion or 16% from a year ago. This followed reductions of \$837 million or 10% in 1994 and \$1.2 billion or 13% in 1993.

Gross non-accrual commercial real estate loans fell \$753 million or 36% in 1995, following a \$467 million or 18% reduction last year. Contributing to this year's reduction was the bulk sale and the resolution of a number of large accounts through restructurings and repayments. Write-offs totalled \$453 million in 1995 versus \$678 million in 1994 and \$357 million in 1993.

The commercial real estate portfolio's coverage ratio (the allowance for credit losses as a percentage of gross non-accrual loans) improved slightly from 54% a year ago to 55% at October 31, 1995, above the average for the Canadian banking industry.

Domestic: Approximately 80% of the bank's commercial real estate outstandings are located in Canada and 36% is in metropolitan Toronto, the area of Canada hardest hit by the last recession. As a result, much of the bank's effort to reduce loan concentrations has been directed to this market. Metropolitan Toronto outstandings have dropped from 44% of total commercial real estate outstandings at the end of 1993.

In 1995, gross outstandings in metropolitan Toronto declined by \$610 million or 22%, partially reflecting the previously mentioned bulk sale. This followed a reduction of \$830 million or 23% in 1994.

Gross non-accrual loans in metropolitan Toronto fell by \$519 million or 36% in 1995, following a \$488 million reduction in 1994. The bulk sale, the impact of restructurings and repayments, and write-offs accounted for this year's reduction. Write-offs were \$300 million this year compared to \$584 million a year ago.

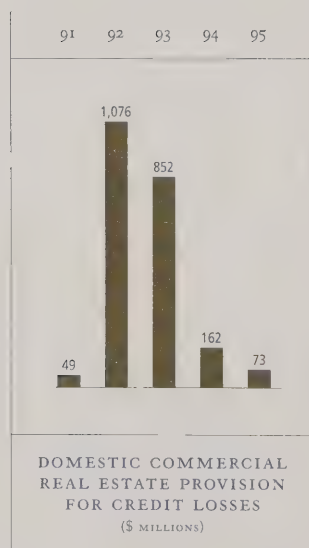
TABLE 14 LDC EXPOSURE

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Exposure (1) (2)					
Brazil	\$1,193	\$1,170	\$1,255	\$1,362	\$1,253
Argentina	234	270	267	387	372
Venezuela	189	231	222	251	210
Yugoslavia	—	—	140	141	127
Dominican Republic	66	68	76	72	77
Mexico (3)	—	—	—	—	961
Other	39	34	61	145	121
	1,721	1,773	2,021	2,358	3,121
Country risk provision (1)	(1,294)	(1,307)	(1,415)	(1,676)	(2,174)
Exposure, net of country risk provision	\$ 427	\$ 466	\$ 606	\$ 682	\$ 947
Country risk provision, as a percentage of exposure	75%	74%	70%	71%	70%
Common shareholders' equity	\$7,042	\$6,323	\$5,682	\$5,912	\$6,101
Exposure, net of country risk provision, as a percentage of common shareholders' equity	6%	7%	11%	12%	16%

(1) Exposure in the 52 designated countries represents the face value of cross-border exposure (i.e. excluding locally funded business), net of any specific provisions. The exposure and the country risk provision have been grossed up to include previously recorded writedowns on loan exchanges.

(2) In accordance with the guidelines of the Superintendent of Financial Institutions Canada, short-term trade financing was excluded from LDC exposure amounts commencing in 1993. As at October 31, 1995, the face and carrying values of LDC short-term trade financing was \$692 million (1994 – \$353 million).

(3) Mexico was removed from the list of designated countries in 1992. As at October 31, 1995, the face value of the bank's Mexican exposure was \$234 million (1994 – \$325 million; 1993 – \$324 million; 1992 – \$1,129 million) and the carrying value was \$158 million (1994 – \$248 million; 1993 – \$291 million; 1992 – \$851 million).



Net non-accrual loans in metropolitan Toronto dropped by \$157 million or 28% in 1995 compared to a \$10 million or 2% reduction in 1994, when the level of write-offs was much higher. Write-offs generally have little or no impact on net non-accrual loans as they reduce gross non-accrual loans and the related allowance for credit losses by similar amounts.

As shown in Table 18 on page 46, the domestic commercial real estate provision for credit losses (which related mostly to the Toronto portfolio) declined to \$73 million in 1995 from \$162 million in 1994 and \$852 million in 1993. Last year's provision had comprised \$362 million of specific provisions and a reversal of \$200 million of the general provision, whereas

this year's \$73 million provision consisted entirely of specific provisions.

For 1996, the bank expects further reductions in outstandings, non-accrual loans and credit losses in its domestic commercial real estate portfolio, based on the economic projections mentioned on pages 23-24.

International: Gross exposure in the international commercial real estate portfolio declined by \$275 million or 18% in 1995, following a \$171 million increase in 1994. This year's reduction resulted partially from the inclusion of some U.S. outstandings as part of the bulk sale discussed earlier.

Gross non-accrual loans in the international portfolio were \$70 million or 25% lower, again reflecting the impact of the bulk sale on the U.S. portfolio.

LESS DEVELOPED COUNTRIES (LDCs)

As shown in Table 14, the face value of the bank's exposure to LDCs was largely unchanged in 1995, following reductions of \$248 million in 1994 and \$337 million in 1993. Last year's reduction had resulted largely from the sale of the bank's loans to Yugoslavia, as well as the impact of restructuring agreements reached with Brazil and the Dominican Republic.

Virtually all of the bank's LDC exposure now consists of bonds received in lieu of principal or past due interest under Brady-type debt restructuring plans.

In the fourth quarter of 1995, the bank included in income \$50 million (\$30 million after income taxes) of proceeds from the sale of some past due interest bonds that had been received from Brazil as part of the restructuring plan for that country. In 1994, the bank had sold some Argentine past due

TABLE 15 CHANGES IN NON-ACCUAL LOANS

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Gross non-accrual loans, beginning of year	\$4,424	\$7,582	\$7,056	\$3,924	\$4,203
Net additions (reductions) in non-accrual loans	(255)	(1,128)	1,643	3,639	909
Less write-offs and translation adjustments	(1,225)	(2,030)	(1,117)	(507)	(1,188)
Gross non-accrual loans, end of year	2,944	4,424	7,582	7,056	3,924
Allowance for credit losses, end of year ⁽¹⁾	(1,796)	(2,331)	(4,324)	(3,575)	(1,908)
Net non-accrual loans, end of year	\$1,148	\$2,093	\$3,258	\$3,481	\$2,016

(1) The allowance for credit losses is shown net of that portion of the country risk provision that is in excess of non-accrual LDC loans.

interest bonds for \$82 million (\$50 million after income taxes).

The bank now has LDC past due interest bonds with a total face value of \$100 million, consisting of \$71 million of Brazilian bonds, \$20 million of Dominican Republic bonds and \$9 million of Argentine bonds. These bonds, which had a market value of \$61 million at year-end 1995, are carried on the bank's balance sheet at nil value and, when sold, their proceeds will be added to net interest income. It remains the bank's intention to sell some or all of these bonds when their prices on the secondary market are sufficiently attractive.

At October 31, 1995, the market value of the bank's LDC and Mexican exposures exceeded their book value by \$300 million, down from \$350 million at the end of 1994 mainly reflecting the sale of Brazilian past due interest bonds discussed earlier.

During the first quarter of this year, the market value surplus had declined to a low of \$168 million as a sharp devaluation of the Mexican peso led to uncertainty about the entire Latin American region. However, by year-end 1995, renewed stability and greater optimism about the region, largely Brazil,

prompted a recovery in the surplus to \$300 million. This amount includes the \$61 million relating to LDC past due interest bonds.

NON-ACCUAL LOANS Gross Non-Accrual Loans

As shown in Table 15, gross non-accrual loans fell to \$2.9 billion at October 31, 1995 from \$4.4 billion a year ago and from a peak of \$7.6 billion at the end of 1993.

The \$1.5 billion reduction in non-accrual loans this year reflected write-offs of \$1.2 billion and net reductions in non-accrual loans of \$255 million this year. The \$255 million compared to \$1.1 billion last year, which resulted primarily from the return to performing status of loans to Brazil and the Dominican Republic, following the adoption of Brady-type debt restructuring plans for those countries.

The bank is encouraged by the continued net reductions in non-accrual loans, which indicate that the amounts sold or returned to performing status exceeded new amounts classified non-accrual.

As shown in Table 16 on page 44, of the \$1.5 billion reduction in gross non-accrual loans this year, \$683 million occurred in the domestic commercial real estate sector and another \$652 million was in the remaining domestic business loan portfolio. International gross non-accrual loans fell by \$135 million or 21% in 1995.

Included in gross non-accrual loans at October 31, 1995 were \$270 million of loans to companies that were paying interest, but which the bank believes may experience difficulty in the future in meeting their principal or interest payment obligations.

The total amount of interest received on non-accrual loans, which is not taken into income but is used to reduce the principal amount of the loan, was \$138 million at the end of 1995 versus \$152 million a year ago.

Net Non-Accrual Loans

As shown in Table 16 on page 44, net non-accrual loans, that is gross non-accrual loans less the allowance for credit losses, declined by \$945 million or 45% in 1995, following a \$1.2 billion or 36% reduction in 1994. Net non-accrual loans are now one-third the peak level of \$3.5 billion at year-end 1992.

MARKET VALUE OF
LDC AND MEXICAN
EXPOSURES EXCEEDED
BOOK VALUE
BY \$300 MILLION
AT YEAR END.



TABLE 16 NON-ACCRUAL LOANS BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

As at October 31 (\$ millions)	1995		1994		1993	1992	1991
	GROSS	NET (1)	GROSS	NET (1)	NET (1)	NET (1)	NET (1)
Domestic							
Atlantic provinces	\$ 74	\$ 46	\$ 129	\$ 88	\$ 82	\$ 51	\$ 50
Quebec	279	173	391	265	209	211	214
Ontario	1,880	893	2,455	1,479	2,207	2,176	935
Prairie provinces	129	88	717	196	475	434	315
British Columbia	77	52	92	57	254	270	257
General provision	—	(300)	—	(300)	(550)	(325)	—
Total Domestic	2,439	952	3,784	1,785	2,677	2,817	1,771
Consisting of:							
Business loans							
Commercial real estate (2)	1,126	534	1,809	811	802	817	260
Small business	299	150	320	134	214	145	148
Agriculture	72	58	87	73	91	65	118
Forestry and paper products (3)	2	2	20	12	85	180	236
Other (4)	598	—	1,196	510	1,143	1,258	689
	2,097	744	3,432	1,540	2,335	2,465	1,451
Residential mortgages	211	167	202	179	225	199	167
Consumer instalment and other personal loans	131	41	150	66	117	153	153
Total Domestic	2,439	952	3,784	1,785	2,677	2,817	1,771
International							
United States	131	21	236	145	103	189	104
Europe	212	115	220	97	145	121	83
Latin America and Caribbean	99	60	98	56	77	61	55
Asia Pacific	4	—	16	10	23	14	3
Total International, excluding LDC loans	446	196	570	308	348	385	245
LDC loans	59	—	70	—	233	279	—
Total International	505	196	640	308	581	664	245
Total	\$2,944	\$1,148	\$4,424	\$2,093	\$3,258	\$3,481	\$2,016
Total loans and acceptances							
Domestic							
Residential mortgages		\$ 44,564		\$ 43,525	\$ 43,177	\$ 32,095	\$ 28,515
Consumer instalment and other personal loans		19,653		19,228	19,111	17,505	17,100
Business and government loans and acceptances		43,070		41,581	43,410	39,525	43,485
Total Domestic		107,287		104,334	105,698	89,125	89,100
International		18,590		17,257	17,073	16,749	16,454
Total		\$125,877		\$121,591	\$122,771	\$105,874	\$105,554
Net non-accrual loans as a percentage of related loans and acceptances							
Domestic							
Residential mortgages		.4%		.4%	.5%	.6%	.6%
Consumer instalment and other personal loans		.2		.3	.6	.9	.9
Business loans and acceptances		1.7		3.7	5.4	6.2	3.3
Total Domestic		.9		1.7	2.5	3.2	2.0
International		1.1		1.8	3.4	4.0	1.5
Total		.9%		1.7%	2.7%	3.3%	1.9%

(1) Net of allowance for credit losses.

(2) Net of general provision of \$100 million (1994 – \$200 million; 1993 – \$400 million; 1992 – \$325 million).

(3) Net of general provision of \$150 million in 1993.

(4) Net of general provision of \$200 million (1994 – \$100 million).

TABLE 17	ALLOWANCE FOR CREDIT LOSSES					
As at October 31 (\$ millions)		1995	1994	1993	1992	1991
Balance at beginning of year		\$3,202	\$4,324	\$3,575	\$1,957	\$2,463
Provision for credit losses		580	820	1,750	2,050	605
Write-offs						
Domestic						
Residential mortgages		(29)	(44)	(18)	(13)	(4)
Consumer instalment, credit card and other personal loans		(224)	(234)	(240)	(234)	(206)
Business loans and acceptances		(839)	(1,499)	(616)	(371)	(497)
		(1,092)	(1,777)	(874)	(618)	(707)
International		(125)	(109)	(339)	(41)	(67)
		(1,217)	(1,886)	(1,213)	(659)	(774)
Recoveries						
Domestic						
Residential mortgages		—	1	—	—	—
Consumer instalment, credit card and other personal loans		44	45	35	10	23
Business loans and acceptances		58	42	62	51	41
		102	88	97	61	64
International		10	—	19	14	13
		112	88	116	75	77
Gains (losses) realized on sales and exchanges of LDC loans		—	(181)	(90)	37	(313)
Other, primarily translation adjustments on provisions denominated in foreign currencies		(8)	37	66	115	(101)
Royal Trust — balance at date of acquisition		—	—	120	—	—
Balance at end of year		\$2,669	\$3,202	\$4,324	\$3,575	\$1,957
Allowance for credit losses						
Domestic						
Residential mortgages		\$ 44	\$ 23	\$ 43	\$ 2	\$ 2
Consumer instalment, credit card and other personal loans		90	84	68	66	57
Business loans and acceptances		1,353	1,893	2,782	1,654	282
		1,487	2,000	2,893	1,722	341
International		1,182	1,202	1,431	1,853	1,616
Total		\$2,669	\$3,202	\$4,324	\$3,575	\$1,957
Non-accrual coverage ratios (1)						
Domestic						
Residential mortgages		20.9%	11.4%	23.2%	1.0%	1.2%
Consumer instalment, credit card and other personal loans		68.7%	56.0%	36.8%	30.1%	27.5%
Business loans and acceptances		64.5%	55.1%	54.1%	43.2%	16.2%
		61.0%	52.8%	51.9%	40.8%	16.1%
International, excluding LDCs		56.1%	46.0%	47.7%	38.2%	36.5%
Total, excluding LDCs		60.2%	51.9%	51.5%	40.5%	17.9%

(1) Allowance for credit losses as a percentage of related gross non-accrual loans.

Domestic business loans accounted for most (\$796 million) of the decline in net non-accrual loans this year. As shown at the bottom of Table 16, net non-accrual domestic business loans declined to 1.7% of related loans and bankers' acceptances from 3.7% in 1994 and a peak of 6.2% in 1992.

Net non-accrual loans in the domestic consumer loan portfolio were \$37 million or 15% lower. Net non-accrual consumer instalment, credit card and other personal loans declined by \$25 million, while net non-accrual residential mortgages were down \$12 million. Domestic residential mortgages and other

consumer loans, which account for 54% of the bank's total loans, continue to have considerably lower non-accrual ratios than domestic business credit exposures.

TABLE 18 PROVISION FOR CREDIT LOSSES BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

For the year ended October 31 (\$ millions)	1995	1994	1993	1992	1991
Provision for credit losses					
Domestic					
Specific provisions					
Atlantic provinces	\$ 37	\$ 56	\$ 55	\$ 53	\$ 32
Quebec	60	189	110	199	143
Ontario	341	855	1,297	1,309	317
Prairie provinces	34	(36)	112	204	107
British Columbia	12	(28)	40	113	63
	484	1,036	1,614	1,878	662
General provision	—	(250)	225	325	—
Total Domestic	484	786	1,839	2,203	662
Consisting of:					
Business loans					
Commercial real estate	73	162	852	1,076	49
Small business	101	184	127	108	93
Agriculture	1	(2)	4	19	23
Forestry and paper products	(3)	(24)	173	73	29
Other	83	239	446	681	269
	255	559	1,602	1,957	463
Residential mortgages	43	21	38	13	5
Consumer instalment, credit card and other personal loans	186	206	199	233	194
Total Domestic	484	786	1,839	2,203	662
International					
Specific provisions					
United States	71	22	59	72	(1)
Europe	(6)	(1)	50	57	26
Latin America and Caribbean	28	16	44	18	18
Asia Pacific	3	(3)	8	—	—
	96	34	161	147	43
Country risk provision	—	—	(250)	(300)	(100)
Total International	96	34	(89)	(153)	(57)
Total	\$580	\$ 820	\$1,750	\$2,050	\$605
Average loans and acceptances					
Domestic					
Residential mortgages	\$ 43,736	\$ 43,358	\$ 33,821	\$ 30,342	\$ 26,708
Consumer instalment, credit card and other personal loans	19,273	18,715	17,041	17,221	16,879
Business and government loans and acceptances	40,518	42,719	40,923	42,821	45,524
Total Domestic	103,527	104,792	91,785	90,384	89,111
International	17,932	18,001	17,654	17,084	16,120
Total	\$121,459	\$122,793	\$109,439	\$107,468	\$105,231
Provision for credit losses as a percentage of related average loans and acceptances					
Domestic					
Residential mortgages	.1%	—	.1%	—	—
Consumer instalment, credit card and other personal loans	1.0	1.1%	1.2	1.4%	1.1%
Business loans and acceptances	.6	1.3	3.9	4.6	1.0
Total Domestic	.5	.8	2.0	2.4	.7
International, excluding country risk provision	.5	.2	.9	.9	.3
Total, excluding country risk provision	.5%	.7%	1.8%	2.2%	.7%

The bank's total domestic net non-accrual loans improved to 0.9% of related loans and bankers' acceptances from 1.7% a year ago and a peak of 3.2% in 1992.

International net non-accrual loans were down \$112 million or 36% from a year ago. This followed a \$273 million decline in 1994 when LDC net non-accrual loans fell to zero from \$233 million in the prior year due to the adoption of Brady plans for Brazil and the Dominican Republic.

The bank's total net non-accrual loans fell to 0.9% of loans and bankers' acceptances at October 31, 1995 from 1.7% a year ago. The bank views 1.0% as a target level over a full economic cycle and believes that next year's level will remain close to this year's 0.9%.

ALLOWANCE FOR CREDIT LOSSES

As shown in Table 17 on page 45, the allowance for credit losses declined by \$533 million in 1995 to end the year at \$2.7 billion. Write-offs this year exceeded provisions for credit losses.

As shown in Note 5 to the financial statements on page 70, specific provisions were down \$522 million this year to \$1.4 billion. The country risk provision was \$929 million at October 31, 1995, of which \$59 million was applied to LDC gross non-accrual loans to maintain LDC net non-accrual loans at nil. The bank's general provision was \$300 million at the end of 1995, unchanged from a year ago. Of the current \$300 million, \$100 million relates to commercial real estate and \$200 million to the remaining credit portfolio.

As shown in Table 17 on page 45, the bank's coverage ratio, excluding LDCs, rose to 60.2% from 51.9% a year ago. Upon further excluding the general provision, which has been established to cover potential losses in the credit portfolio, the coverage ratio would have been 49.8% in 1995, up from 45.1% in 1994.

Effective November 1, 1995, a new standard was issued by the Canadian Institute of Chartered Accountants and a related implementation guideline was introduced by the Superintendent of Financial Institutions Canada. The standard requires that non-accrual loans (which will be referred to as "impaired loans") be measured based on the present value of expected future cash flows, discounted at the interest rate inherent in the original loan. Had this standard been in place in fiscal 1995, the allowance for credit losses would have been \$130 million higher at October 31, 1995, net non-accrual loans would have been \$130 million lower, and retained earnings would have declined by \$75 million.

PROVISION FOR CREDIT LOSSES

As shown in Table 18 on page 46, the provision for credit losses in 1995 was down \$240 million or 29% from a year ago, and was more than 70% lower than the peak provision level of \$2.1 billion in 1992. The decline this year reflected fewer new problem loans and the level of provisioning already in effect on existing problem accounts.

This year's provision represented .5% of average loans and bankers' acceptances, down from .7% last year. The .5% was in line with the medium-term goal in effect

during 1995, and close to the new target goal of .35-.45% established at the end of this year.

This year's entire \$580 million provision for credit losses consisted of specific provisions, whereas the \$820 million provision in 1994 reflected specific provisions of \$1,070 million and a \$250 million reversal of the general provision (\$200 million for commercial real estate and \$50 million for forestry and paper product accounts). Specific provisions were, therefore, down \$490 million or 46% from 1994 to 1995.

In the domestic business loan portfolio, the total provision for credit losses declined by \$304 million or 54%, to .6% of related average loans and bankers' acceptances from 1.3% in 1994 and a peak of 4.6% in 1992.

Provisions in the domestic commercial real estate and the small business loan portfolios fell by 55% and 45% respectively, while provisions in the remaining business loan portfolio were down by 62%.

The provision for credit losses on domestic residential mortgages increased by \$22 million in 1995, largely reflecting the bank's decision to increase the provisioning rate on non-accrual loans. Residential mortgage provisions are set on a portfolio, rather than individual loan, basis. Despite the increase, the provision accounted for only .1% of related average loans. The provision for other consumer loans improved to 1.0% of related outstandings from 1.1% last year.

**\$300 MILLION
GENERAL PROVISION
UNCHANGED
FROM 1994.**

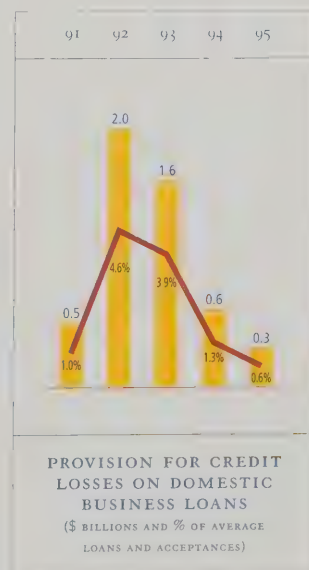


TABLE 19 LIQUIDITY

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	\$ 1,030	\$ 1,023	\$ 1,198	\$ 1,443	\$ 1,298
Deposits with other banks	2,228	2,657	822	1,234	1,350
Securities (1)	28,494	23,447	19,663	12,193	9,791
	31,752	27,127	21,683	14,870	12,439
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	87	164	175	73	89
Deposits with other banks	14,365	12,605	8,679	8,188	6,083
Securities (1)	7,492	5,822	4,744	2,905	3,003
	21,944	18,591	13,598	11,166	9,175
Total liquid assets					
Cash and deposits with Bank of Canada	1,117	1,187	1,373	1,516	1,387
Deposits with other banks	16,593	15,262	9,501	9,422	7,433
Securities (1)	35,986	29,269	24,407	15,098	12,794
	\$53,696	\$45,718	\$35,281	\$26,036	\$21,614
Liquid assets as a percentage of total assets	29%	26%	21%	19%	16%

(1) Securities include investment and trading account securities and call loans, but exclude loan substitute securities.

THE BANK EXPECTS
A FURTHER REDUCTION
IN THE PROVISION
FOR CREDIT LOSSES
IN 1996.

The international provision for credit losses rose by \$62 million, partially reflecting higher provisions on a U.S. commercial real estate account. As a percentage of average loans and bankers' acceptances, international provisions were .5% this year, close to the bank's new target goal of .35-.45%.

The bank expects a further reduction in the provision for credit losses in 1996, albeit a smaller reduction than in 1995. Over the next business cycle, the bank's objective is to maintain an average ratio of between .35% and .45% for credit loss provisions as a percentage of average loans and bankers' acceptances.

LIQUIDITY RISK
MANAGEMENT

Liquidity management is designed to ensure that the bank has the ability to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its financial commitments on a daily basis. Effective liquidity management is critical to maintaining market confidence, protecting the capital base and allowing for profitable business expansion.

The bank's funding requirements are determined by examining future cash flows based on the expected maturities of assets, liabilities and off-balance sheet instruments. Limits regarding the maximum net outflow of funds in a particular period are in place. Liquidity reports are provided to senior management to enable them to monitor changes in liquidity and react appropriately to market developments.

Liquidity levels maintained by the bank vary in response to changes in economic, political, regulatory and other operating conditions. In managing its liquidity, the bank also takes into account various legal limitations and tax implications of transferring funds between business units. Canadian federal and certain provincial statutes applicable to the bank's federally chartered loan and trust company subsidiaries apply capital adequacy, liquidity and investment standards to their operations. These statutes also restrict transactions between these subsidiaries and their related parties. These restrictions, and legal or practical

restrictions on the ability of other subsidiaries and foreign branches to transfer funds to the bank, do not affect the bank's ability to meet its obligations.

Contingency plans exist for both Canadian dollar and foreign currency liquidity to satisfy funding requirements in the case of general market disruption or adverse economic conditions.

A sound framework for managing liquidity includes maintaining a sufficient level of liquid assets that can be readily converted into cash without incurring undue capital losses. As shown in Table 19, the bank's liquid assets, which consist largely of deposits with other banks and securities, totalled \$53.7 billion at October 31, 1995, up from \$45.7 billion at year-end 1994. At October 31, 1995, liquid assets accounted for 29% of total assets compared to 26% a year earlier.

The bank places most of its foreign currency liquid assets with other large international banks. Foreign currency deposits with other banks were \$14.4 billion or 30% of total foreign currency assets at October 31, 1995,

TABLE 20 DEPOSITS

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Canadian dollar deposits					
Consumers	\$ 79,912	\$ 75,910	\$ 75,965	\$ 59,891	\$ 56,443
Businesses and governments	23,260	21,610	19,961	18,968	17,187
Banks	2,274	1,476	1,710	1,157	1,310
	105,446	98,996	97,636	80,016	74,940
Foreign currency deposits					
Consumers	10,017	9,304	8,731	7,757	7,889
Businesses and governments	16,640	14,812	13,820	11,277	12,553
Banks	11,388	12,703	10,212	13,172	9,640
	38,045	36,819	32,763	32,206	30,082
Total deposits					
Consumers	89,929	85,214	84,696	67,648	64,332
Businesses and governments	39,900	36,422	33,781	30,245	29,740
Banks	13,662	14,179	11,922	14,329	10,950
	\$143,491	\$135,815	\$130,399	\$112,222	\$105,022
Consumer deposits as a percentage of total deposits	63%	63%	65%	60%	61%

compared to \$12.6 billion or 31% a year ago.

Sound liquidity management also requires a stable and diversified funding base. The bank's funding environment differs significantly in its domestic and international markets. Such differences relate to the bank's client base characteristics, the nature of the deposit market, the bank's market share and regulatory environments.

Table 20 provides details of the bank's deposits. The bank's Canadian dollar deposits consist primarily of deposits from Canadian consumers, which are facilitated by the bank's extensive domestic branch and banking machine network.

The bank funds its foreign currency activities mainly through wholesale markets by taking deposits from corporate clients and other large international banks. Since wholesale funding accounts for a significant portion of the international funding base, the bank manages its liquidity with a view to increasing the diversification by depositor type and country, extending maturity whenever possible, and maintaining an adequate

cash position in foreign currencies.

The bank's liquidity is enhanced by its access to global money and capital markets and by maintaining access to additional funds with existing counterparties. Such activities require the continual development and strengthening of relationships with a diverse network of dealers and counterparties.

MARKET RISK MANAGEMENT

Market risk is the risk to future earnings that results from changes in interest rates, foreign exchange rates, equity and commodity prices and the level of volatility of these rates and prices. Market risk arises in most areas of the bank's operations, including its trading activities. The bank has established risk management policies and limits within which exposure to market risk is monitored and controlled. The two main components of market risk are interest rate risk and foreign exchange rate risk, which are discussed later in this section.

Market risk associated with trading activities is a result of market-making and positioning activities in the foreign exchange, interest rate, securities and other markets. Market-making involves making bid and ask prices to other market participants with the intention of generating revenues based on the spread and volume. Net open positions created as a result of these activities are typically left open for short periods before being hedged or offset in the marketplace. Positioning involves managing market risk positions for longer periods to take advantage of anticipated movements in markets and thereby enhance profitability.

The bank's trading risk management process utilizes "dollars-at-risk" (DAR) and other techniques to monitor and control market risks. DAR is based on statistical estimates of the potential losses a portfolio could experience due to changes in underlying prices over a given holding period for a given confidence level. DAR takes into account numerous

THE BANK HAS
ESTABLISHED RISK
MANAGEMENT POLICIES
AND LIMITS WITHIN
WHICH EXPOSURE TO
MARKET RISK IS
MONITORED AND
CONTROLLED.

TABLE 21 INTEREST RATE SENSITIVITY POSITION

As at October 31, 1995 (\$ millions)	WITHIN 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON- INTEREST SENSITIVE	TOTAL
Assets							
Cash and deposits with Bank of Canada						\$ 1,117	\$ 1,117
Deposits with other banks	\$ 12,252	\$ 2,538	\$ 1,591	\$ 145	—	67	16,593
Securities	5,967	3,468	3,345	13,503	\$5,125	1,297	32,705
Loans	64,592	9,493	10,753	31,319	902	2,518	119,577
Customers' liability under acceptances						6,300	6,300
Premises and equipment						1,870	1,870
Other assets	1,815	40	—	—	—	3,635	5,490
	\$ 84,626	\$15,539	\$ 15,689	\$44,967	\$6,027	\$16,804	\$183,652
Liabilities and shareholders' equity							
Consumer deposits	\$ 47,268	\$ 7,690	\$ 14,565	\$18,153	\$ 40	\$ 2,213	\$ 89,929
Other deposits	38,274	8,158	2,334	1,093	56	3,647	53,562
Acceptances						6,300	6,300
Secured liabilities of subsidiaries other than deposits	2,843	—	—	—	—	—	2,843
Other liabilities	7,740	630	523	2,432	2,703	4,424	18,452
Subordinated debentures	1,125	—	—	1,056	1,353	—	3,534
Shareholders' equity	150	—	—	—	—	8,882	9,032
	\$ 97,400	\$16,478	\$ 17,422	\$22,734	\$4,152	\$25,466	\$183,652
On-balance sheet gap	\$(12,774)	\$ (939)	\$(1,733)	\$22,233	\$1,875	\$(8,662)	—
Off-balance sheet gap (1)	5,420	(1,261)	(653)	(4,144)	638	—	—
Total interest rate sensitivity gap	\$(7,354)	\$(2,200)	\$(2,386)	\$18,089	\$2,513	\$(8,662)	—
Cumulative interest rate sensitivity gap	\$(7,354)	\$(9,554)	\$(11,940)	\$ 6,149	\$8,662	—	—

(1) The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, such as forward rate agreements and interest rate swaps, which are used to manage interest rate risk.

THE BANK MEASURES
INTEREST RATE RISK
FROM BOTH A CURRENT
EARNINGS AND
AN ECONOMIC
PERSPECTIVE.

variables that may cause a change in the value of portfolios, including interest rates, foreign exchange rates, securities prices, volatilities and correlations between these variables. The bank's Corporate Treasury group calculates, reviews and updates the historic volatilities and correlations that serve as the basis for these estimates. DAR amounts for major business units are monitored on a daily basis.

In addition to DAR, the bank uses other limits such as net open positions, notional gap limits and notional amounts outstanding to control market risk exposures.

Interest Rate Risk Management

Interest rate risk is the sensitivity of the bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance

sheet instruments that mature or reprice in a given period generate interest rate risk. These gaps result from customers' term preferences, strategic positioning to enhance profitability and transactions such as the issuance of fixed rate capital. The magnitude of the impact on earnings of such gaps is a function of the frequency and degree of interest rate changes, the slope of the yield curve and the maturity profile of the assets and liabilities.

The bank can reduce this risk by better matching the repricing of assets and liabilities. This can be achieved by changing the mix of assets and liabilities through marketing and pricing initiatives and through the use of derivatives and on-balance sheet instruments. The mix of on-balance sheet instruments and derivatives used to manage interest rate risk is based on

many factors including economic conditions, capital and liquidity considerations and guidelines in place which limit exposures by instrument and currency.

The bank seeks to achieve a balance between reducing risk to earnings from adverse movements in interest rates and enhancing net interest income through correct anticipation of the direction and extent of interest rate changes.

The bank measures interest rate risk from both a current earnings (net interest income) and an economic (market value) perspective. Net interest income risk measures the potential impact on net interest income over the next twelve months of an immediate and sustained adverse movement in interest rates whereas market value risk measures the impact on the market value of both on and off-balance sheet

instruments from such a movement in interest rates. Market value risk is the present value of the potential change in net income over all future periods and hence provides a leading indication of the impact on future earnings of an adverse movement in rates.

Given the bank's interest rate sensitivity position at October 31, 1995 and assuming an immediate and sustained parallel increase in interest rates of 1% across all maturities, net income after tax would decline by approximately \$53 million over the next twelve months if no hedging is undertaken and all assets and liabilities repriced by this 1% amount. Similarly, common shareholders' equity, in present value terms, would be reduced by approximately \$267 million after tax.

The bank uses a wide range of analytical techniques, including gap analysis, duration analysis and simulation modelling, to monitor and manage interest rate risk.

Gap analysis measures the difference between the amount of assets, liabilities and off-balance sheet instruments that reprice in specified time periods and provides a useful framework for measuring exposure against limits. Gap analysis shows a position at a particular time that can and will be altered depending on management's outlook on interest rates as well as the product and term preferences of customers.

Table 21 on page 50 provides the bank's interest rate sensitivity position as at October 31, 1995 based upon the known repricing dates of fixed rate assets and liabilities and the assumed repricing dates of others. The under one year gap shows a liability sensitive position with an exposure to a rising rate envi-

ronment. Conversely, interest rate exposure beyond the one year period is to declining rates. Positions were affected during 1995 by customers' preference for longer-term deposits, partially offset by additional securities holdings.

Duration analysis is used to measure the bank's market value risk. Duration measures the relative sensitivity of the value of assets, liabilities and off-balance sheet instruments to changing interest rates and indicates how changes in interest rates may affect the bank's economic value.

Simulation models complement gap and duration analysis by enabling the bank to analyze interest rate risk in a dynamic context. The models incorporate assumptions about pricing strategies, growth, volume and mix of new business, changes in the shape of the yield curve, interest rates and other factors such as the impact of embedded product options, including mortgage rate commitments and extendable and redeemable deposit instruments. The models also show the impact on market value and net interest income of various potential hedging strategies and economic scenarios in order to maximize risk/return tradeoffs. The assumptions incorporated in these simulation models are updated regularly to reflect changing conditions.

Foreign Exchange Rate Risk Management

The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets. Spot foreign exchange risk arises when the total assets in any currency do not equal the total liabilities in the same currency. Unless there is a match between the level of assets, liabilities and off-

balance sheet items in each currency, there is a risk that exchange rate movements may have a negative financial impact. Forward foreign exchange market risk arises when, for a given currency, the amount of purchased foreign exchange contracts that settle on a given date differs from the amount of sold contracts that settle on that date. Forward foreign exchange rates are based on spot rates and interest rate differentials between the respective currencies.

To measure foreign exchange market risk, the bank uses the DAR methodology, which relates potential market rate changes directly to their impact on pre-tax income. It determines, with a given confidence level, the maximum likely impact of currency and interest rate differential movements that could occur over a three day period. Since DAR considers the correlation between various market rates, it improves the accuracy of the measurement of the impact by emphasizing the effect of likely combinations of rate movements and discounting the effect of changes that are less likely to occur. Global limits for daylight and overnight DAR exposure are in place and are further controlled through sub-limits by currency. In addition, the notional amount of forward mismatches within different forward periods are subject to limits.

OFF-BALANCE SHEET ACTIVITIES

The bank uses various types of off-balance sheet instruments in the ordinary course of business. These off-balance sheet activities can be broadly divided into two categories: credit instruments and derivatives.

THE BANK USES A WIDE RANGE OF ANALYTICAL TECHNIQUES, INCLUDING GAP ANALYSIS, DURATION ANALYSIS AND SIMULATION MODELLING, TO MONITOR AND MANAGE INTEREST RATE RISK.

TABLE 22 DERIVATIVE CONTRACTS: NOTIONAL AMOUNTS

As at October 31 (\$ millions)	1995			1994		
	TOTAL	TRADING	OTHER THAN TRADING	TOTAL	TRADING	OTHER THAN TRADING
Interest rate contracts						
Forward rate agreements	\$164,154	\$163,267	\$ 887	\$ 97,208	\$ 92,630	\$ 4,578
Futures contracts	57,960	57,459	501	53,797	53,289	508
Swap contracts	334,235	311,929	22,306	273,296	243,643	29,653
Options	56,928	55,911	1,017	59,650	59,260	390
Foreign exchange contracts						
Spot and forward contracts	536,945	530,890	6,055	404,100	397,137	6,963
Futures contracts	202	202	—	605	605	—
Swap contracts	21,775	19,212	2,563	16,530	14,583	1,947
Options	69,577	69,369	208	41,528	41,528	—
Other (1)	3,280	3,280	—	2,394	2,394	—

(1) Comprised of precious metals and equity-linked contracts.

MOST OF THE BANK'S
DERIVATIVES
TRANSACTIONS ARE
A RESULT OF ITS
SALES AND TRADING
ACTIVITIES.

CREDIT INSTRUMENTS

Credit instruments, which include commitments to extend credit, standby letters of credit, financial and non-financial guarantees and commercial letters of credit, are entered into primarily to meet the needs of customers. These arrangements are discussed in more detail in Note 16 to the financial statements on page 77.

DERIVATIVES

Derivatives are financial contracts whose value is derived from interest rates, foreign exchange rates or equity and commodity prices. Derivatives include swaps, forwards, futures and option contracts. Derivatives are either negotiated over-the-counter (OTC) contracts or standardized contracts traded on regulated exchanges. The bank uses these instruments for trading and for asset and liability management purposes.

Table 22 shows the notional amount of derivative contracts outstanding at October 31, 1995 and 1994. These amounts do not represent the credit or market risk associated with these contracts but are a common

measure of business volume. The notional amounts of derivatives are not recorded on the balance sheet.

Derivatives Held or Issued for Trading Purposes

Most of the bank's derivatives transactions are a result of its sales and trading activities. Sales activities involve the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Trading activities include market making – trading with the intention of capturing the spread between bid and ask prices, and positioning – managing the market risk associated with trading positions created by sales and trading activities. The bank may also engage in derivative transactions to hedge trading positions and also to take proprietary positions in anticipation of movements in markets. Derivatives trading activities are conducted within prudent risk limits and are subject to the market risk management processes and framework described on pages 49-50.

Derivatives used in trading activities are marked to market with the resultant gains and losses included in trading revenues in 'Other income'. Trading derivatives are recorded on the balance sheet at their estimated market values with unrealized gains and losses (positive and negative market values) netted and reported in 'Other assets' or 'Other liabilities'.

Effective November 1, 1996, Canadian accounting standards will require unrealized gains to be reported as assets and unrealized losses to be reported as liabilities. Unrealized gains and losses may only be netted if the contracts were executed under legally enforceable master netting agreements and the bank intends to settle with the counterparty on a net basis or to realize the asset and settle the liability simultaneously. If this accounting standard had already been implemented, the bank's assets and liabilities as of October 31, 1995 would have increased by approximately \$13 billion. Implementation of the new accounting standard will have no impact on Tier 1 and Total capital ratios.

TABLE 23	DERIVATIVE CREDIT EXPOSURE BY COUNTERPARTY TYPE						
As at October 31 (\$ millions)		1995				1994	
	REPLACEMENT COST (1) (GROSS)	REPLACEMENT COST (AFTER NETTING AGREEMENTS)	CREDIT EQUIVALENT AMOUNT (2)	RISK ADJUSTED BALANCE (3)	REPLACEMENT COST (1) (GROSS)	CREDIT- EQUIVALENT AMOUNT (2)	RISK ADJUSTED BALANCE (3)
Banks	\$10,002	\$6,938	\$15,903	\$3,147	\$ 7,934	\$12,016	\$2,394
OECD governments	730	730	1,516	—	726	1,404	—
Other	2,646	2,276	4,685	2,329	2,208	3,341	1,665
Total	\$13,378	\$9,944	\$22,104	\$5,476	\$10,868	\$16,761	\$4,059

- (1) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements.
 (2) Comprised of the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements, plus potential exposure calculated in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
 (3) Used in the calculation of risk-based capital ratios as shown in Table 25 on page 56.

The positive and negative market values of the bank's derivatives are shown separately in Note 17 to the financial statements on page 79.

Derivatives Held or Issued for Other Than Trading Purposes

The bank uses derivatives in connection with its own asset and liability management, which includes hedging and investment activities. Common hedging activities include the use of interest rate swaps to adjust the bank's exposure to interest rate risk and the use of interest rate options to hedge prepayment and other options embedded in consumer products. In addition, foreign exchange forward contracts are used to hedge the bank's net investments in foreign operations. Investment activities include the use of derivatives as a substitute for investments in on-balance sheet securities. These activities promote balanced levels of interest rate risk and aid in the bank's liquidity management activities.

Derivatives held for other than trading purposes are accounted for in a manner consistent with the accounting treatment afforded to the related hedged assets or liabilities, generally on an accrual basis. Revenues and expenses related to such derivatives are included as adjustments to interest income or interest

expense. The fair value of derivatives held for other than trading purposes is shown in Note 17 on page 79.

Derivatives held for other than trading purposes represented 2.7% of total notional amounts of derivatives outstanding at October 31, 1995.

Derivatives - Volume and Trend

The notional amounts of the bank's derivatives as well as the fair value of derivative instruments held or issued for trading and other than trading purposes are provided in Note 16 and Note 17 to the financial statements on pages 75-80.

The bank's derivatives portfolio experienced growth during 1995. This increase resulted primarily from greater use of these instruments by clients seeking protection from volatile currencies and interest rates.

Credit Risk Related to Derivatives

The credit risk exposure resulting from derivatives, also referred to as the 'credit-equivalent amount', is represented by the current replacement value of contracts with positive market values plus an estimate of the potential increase in replacement values over the remaining lives of the contracts.

Current replacement value represents the cost to replace a contract at current market rates should the counterparty default. When the contract has a positive market value, it indicates that the counterparty owes the bank and creates a credit risk for the bank. When the contract has a negative market value, the bank does not have any credit risk because it is the bank who owes the current replacement value to the counterparty.

The credit exposure for derivative transactions can fluctuate as the price, index or rate of the underlying instrument changes. Potential exposure represents an estimate of the potential future exposure of the contract as a result of market changes and is primarily a function of the term to maturity and the expected volatility of the rate or index underlying the contract.

Bank capital adequacy guidelines issued by the Superintendent of Financial Institutions Canada contain standards for measuring the credit risk arising from derivatives. Table 26 on page 57 shows that the risk-adjusted amounts represent only a small fraction of the notional amounts outstanding.

DERIVATIVES HELD
FOR OTHER THAN
TRADING PURPOSES
REPRESENTED 2.7% OF
TOTAL NOTIONAL
AMOUNTS OF
DERIVATIVES
OUTSTANDING AT
OCTOBER 31, 1995.

◆

THE CREDIT RISK FROM DERIVATIVES IS MANAGED THROUGH THE SAME CREDIT APPROVAL, LIMIT AND MONITORING PROCEDURES THAT THE BANK USES FOR OTHER CREDIT TRANSACTIONS.

◆

The credit risk from derivatives is managed through the same credit approval, limit and monitoring procedures that the bank uses for other credit transactions. Credit utilization is compared with established limits on a daily basis and is subject to a standard exception reporting process.

The bank manages its derivatives credit exposure by dealing with counterparties evaluated as creditworthy, managing the size, diversification and maturity structure of the portfolio and using credit mitigation techniques such as master netting agreements. The bank may also mitigate counterparty credit exposure through the use of settlement netting and by obtaining collateral where appropriate.

Master netting agreements provide for the calculation of a single monetary obligation if the counterparty defaults or upon the occurrence of another event such as insolvency or bankruptcy. If such an event occurs, the bank would have a claim (obligation) to receive (pay) only the net sum of the positive and negative replacement values of all individual transactions governed by the master agreement. Although the bank actively encourages counterparties to enter into master netting agreements, the impact of these agreements on the bank's measure of credit utilization is only recognized where analysis, based on appropriate opinions of law, supports such recognition.

Settlement netting arrangements provide for the offsetting of contractual payments and receipts in the ordinary course of business between the bank and its counterparties.

The impact of master netting agreements and settlement netting arrangements on total current credit exposure is shown in Note 16 to the financial statements on page 76.

Table 23 on page 53 shows the replacement cost, before and after netting, the credit-equivalent amounts and related risk-adjusted balances of the bank's derivatives by counterparty type. At October 31, 1995, 72% of the total credit-equivalent amount outstanding was with other banks.

The maturity profile of the bank's derivative instruments is presented in Note 16 to the financial statements on page 76. The majority of the bank's derivatives are outstanding for less than one year. The average term of the interest rate swaps portfolio is approximately 2 years. Close to 60% of current credit exposure for foreign exchange forward contracts relates to contracts with a remaining term of less than three months.

Market Risk Related to Derivatives

The market risk arising from derivatives is subject to the market risk management processes and framework described on page 49. Measurement and management of the bank's exposure to market risk is only meaningful when the market risks of derivatives and on-balance sheet financial instruments, such as securities, loans and deposits, are aggregated and the resulting net exposures to interest rate, foreign exchange and other market risks identified.

Derivatives receive increased market risk management attention due to

their unique features and complexity.

The bank's Corporate Treasury group oversees trading risks and is responsible for developing and implementing comprehensive risk measures, policies and limits; monitoring trading risk exposures; and assessing global risk/return trends and alerting senior management to adverse trends or positions. In addition, the group establishes volatility and correlation parameters of market rates and prices for the estimation of market risks in a product or portfolio, and certifies the valuation models utilized by the bank.

OPERATIONAL RISK MANAGEMENT

Operational risk is the potential for loss caused by a breakdown in information, communication, processing, settlement and legal compliance systems. It can result from systems or procedural failures, human error, the impact of natural disasters and criminal activity.

While operational risk can never be fully eliminated, the bank endeavours to minimize it through a comprehensive system of internal controls which are continuously evaluated by management. Some of the key policies and procedures employed by the bank in managing operational risk involve segregation of duties, delegation of authorities, transaction processing, risk monitoring and financial and managerial reporting. The bank also possesses extensive back-up capabilities and engages in business resumption planning to ensure ongoing service delivery under adverse conditions.

◆

DERIVATIVES RECEIVE INCREASED MARKET RISK MANAGEMENT ATTENTION DUE TO THEIR UNIQUE FEATURES AND COMPLEXITY.

◆

TABLE 24 CAPITAL FORMATION

For the year ended October 31 (\$ millions)

	1995	1994	1993	1992	1991
Internally generated capital					
Net income	\$1,262	\$1,169	\$300	\$ 107	\$ 983
Amounts credited (charged) to retained earnings	(8)	4	(12)	4	(11)
Capital from operations	1,254	1,173	288	111	972
Dividends	(535)	(532)	(518)	(484)	(455)
	719	641	(230)	(373)	517
External financing					
Subordinated debentures	57	35	315	51	777
Preferred stock	(276)	18	654	(67)	515
Common stock	—	—	—	184	276
	(219)	53	969	168	1,568
Total increase (decrease) in capital	\$ 500	\$ 694	\$739	\$(205)	\$2,085

In addition, recognizing that no amount of controls can substitute for highly-skilled staff, the bank emphasizes training to constantly upgrade the competencies of its workforce. It also has established a formal code of conduct which must be reviewed annually by each employee.

A number of specific measures are used in minimizing operational risk related to the bank's derivative activities. For example:

- Front and back office activities are segregated to ensure that traders have no access to the transaction processing, confirmation, and payment functions. In addition, the risk management functions have clear and independent authority that is segregated from trading activities.
- Derivatives held for trading purposes are valued daily for profitability reporting and risk management purposes, with independent operations staff providing verification of prices and valuation models certified by the Corporate Treasury group.
- Full off-site processing and trading systems backup facilities ensure the reliability of the complex computer systems on which trading personnel depend.

▪ Policies and documentation standards are in place to monitor legal risks.

▪ Trading executives are present in each of the major trading rooms.

▪ The bank has a specialized training program to ensure the development of qualified trading staff.

CAPITAL MANAGEMENT CAPITAL FUNDS

Capital consists of common shareholders' equity (which includes common stock and retained earnings), preferred shareholders' equity and subordinated debentures. Combined with the size and stability of a financial institution's deposit base, capital provides an important source and measure of financial strength. In recent years, regulators and rating agencies have directed a great deal of attention to financial institutions' funding sources, particularly their capital levels.

In managing its capital, the bank balances two major objectives — a strong level of capital and a high return to its shareholders. Decisions regarding capital are influenced by the bank's expected asset growth, future investment plans, and the costs and term structures of existing issues compared to current

and expected interest rate levels.

As shown on the balance sheet on page 60, at October 31, 1995, total capital funds were \$12.6 billion, an increase of \$500 million from a year ago. Table 24 shows that the increase resulted from a record level of internally generated capital this year.

Based on this year's improvement in earnings and accordingly its Tier 1 and Total capital ratios, the bank's Board of Directors approved an increase in the quarterly dividend from 29 cents to 31 cents per common share, payable on November 24, 1995.

REGULATORY CAPITAL

Capital for regulatory purposes differs from capital recorded on the balance sheet in that goodwill and investments in associated companies are excluded from regulatory capital, while non-controlling interests in subsidiaries are included in regulatory capital. As well, subordinated debentures are amortized by 20% per year in the final five years to maturity.

QUARTERLY COMMON
SHARE DIVIDEND
INCREASED FROM
29 CENTS TO 31 CENTS
IN THE FOURTH
QUARTER.

TABLE 25 CAPITAL RATIOS

As at October 31 (\$ millions)	1995	1994	1993	1992	1991
Tier 1 capital					
Common shareholders' equity	\$ 7,042	\$ 6,323	\$ 5,682	\$ 5,912	\$ 6,101
Non-cumulative preferred shares	1,605	1,609	1,594	948	924
Non-controlling interest in subsidiaries	107	93	81	75	73
Less: goodwill (1)	(333)	(365)	(447)	(195)	(160)
	8,421	7,660	6,910	6,740	6,938
Tier 2 capital					
Permanent preferred shares and subordinated debentures	788	1,063	1,050	1,018	971
Non-permanent preferred shares and subordinated debentures (2)	2,708	2,806	2,980	2,728	2,780
Non-controlling interest in subsidiaries	—	—	5	—	—
Less: investment in associated corporations	(4)	(4)	(4)	(3)	(3)
	3,492	3,865	4,031	3,743	3,748
Total capital	\$11,913	\$11,525	\$10,941	\$10,483	\$10,686
Risk-adjusted assets					
On-balance sheet assets	\$ 92,129	\$ 93,215	\$ 94,452	\$ 91,927	\$ 94,112
Off-balance sheet financial instruments	29,221	26,943	22,591	22,371	19,863
Total risk-adjusted assets	\$121,350	\$120,158	\$117,043	\$114,298	\$113,975
Tier 1 capital to risk-adjusted assets	6.9%	6.4%	5.9%	5.9%	6.1%
Tier 2 capital to risk-adjusted assets	2.9%	3.2%	3.4%	3.3%	3.3%
Total capital to risk-adjusted assets	9.8%	9.6%	9.3%	9.2%	9.4%
Common shareholders' equity to risk-adjusted assets	5.8%	5.3%	4.9%	5.2%	5.4%

(1) Goodwill existing before October 31, 1988 is deducted from Tier 1 capital in the following proportions: 2/3 in 1991 and in full in 1992 and thereafter.

(2) Preferred shares and subordinated debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

The primary measures of regulatory capital strength for Canadian banks are the risk-adjusted capital ratios developed pursuant to guidelines issued by the Superintendent of Financial Institutions Canada based on standards issued by the Bank for International Settlements (BIS) in 1988 and subsequently updated.

Consistent with these guidelines, total capital is allocated into two tiers, with the first tier (Tier 1 capital) comprising the more permanent forms of capital. The components of Tier 1 and Tier 2 capital are shown in Table 25.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by "risk-adjusted assets".

Risk-adjusted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to

the relative credit risk of the counterparty. These risk weights vary from 0% for claims on the Government of Canada and other OECD countries to 100% for business and consumer loans. Government-insured residential mortgages, which account for 30% of the bank's total residential mortgages, are assigned a zero risk weight, while the remaining residential mortgages receive a risk weighting of 50%. In 1995, this methodology resulted in a risk-adjusted balance of \$92.1 billion for the bank's on-balance sheet assets of \$183.7 billion.

Off-balance sheet instruments, including credit products and derivatives, must first be converted to credit-equivalent amounts before risk-adjusted balances can be determined. In the case of credit instruments such as guarantees, letters of credit

and commitments to extend credit, the credit-equivalent amounts are calculated using "credit conversion factors" which depend upon the nature of the instrument and the original term to maturity. The calculation of credit-equivalent amounts for derivatives is described in the Derivatives section of the Off-Balance Sheet Activities discussion on pages 51-54.

Since the end of fiscal 1992, Canadian banks have been required to maintain a minimum Total capital ratio of 8%, with Tier 1 capital comprising at least half of Total capital.

At October 31, 1995, the bank's Tier 1 and Total capital ratios were 6.9% and 9.8% respectively, well above the minimum regulatory requirements and up from 6.4% and 9.6% at the end of 1994.

Bank regulators in the United States, unlike in

TABLE 26 RISK-ADJUSTED ASSETS

As at October 31 (\$ millions)

On-balance sheet assets			BALANCE SHEET AMOUNT	PRINCIPAL RISK WEIGHT	RISK-ADJUSTED BALANCE		
					1995	1994	
Cash and deposits with Bank of Canada			\$ 1,117	0%	—	—	
Deposits with other banks			16,593	20%	\$ 3,272	\$ 3,007	
Securities issued or guaranteed by Canada, provinces, municipalities or other OECD countries			24,777	0%	191	85	
Other securities			7,928	100%	5,807	5,538	
Loans issued or guaranteed by Canada, provinces, municipalities or other OECD countries			6,874	0%	472	382	
Government – insured mortgages			13,303	0%	77	90	
Other mortgages			34,851	50%	19,514	19,705	
Other loans			64,549	100%	52,302	54,083	
Customers' liability under acceptances			6,300	100%	6,096	6,037	
Other assets			7,360	100%	4,398	4,288	
			\$183,652		\$92,129	\$93,215	
Off-balance sheet financial instruments		CONTRACT AMOUNT	CREDIT - CONVERSION FACTOR	CREDIT - EQUIVALENT AMOUNT	PRINCIPAL RISK WEIGHT	RISK-ADJUSTED BALANCE	
						1995	1994
Credit instruments							
Guarantees and standby letters of credit:							
Financial	\$ 5,546	100%	\$ 5,546	100%	\$ 5,469	\$ 5,080	
Non-financial	1,857	50%	928	100%	925	958	
Securities lending	11,667	100%	11,667	0%	208	501	
Documentary and commercial letters of credit	836	20%	167	100%	161	140	
Commitments to extend credit: (1)							
Original term to maturity of one year or less	47,507	0%	—	0%	—	—	
Original term to maturity of more than one year	34,703	50%	17,351	100%	16,880	16,102	
Note issuance/revolving underwriting facilities	205	50%	102	100%	102	103	
Total credit instruments	\$102,321		\$35,761		\$23,745	\$22,884	
Derivatives (4)		NOTIONAL AMOUNT	GROSS REPLACEMENT COST (2)	CREDIT - EQUIVALENT AMOUNT (3)	PRINCIPAL RISK WEIGHT	RISK-ADJUSTED BALANCE	
						1995	1994
Interest rate contracts:							
Forward rate agreements	\$164,154	\$ 108	\$ 138	20%	\$ 31	\$ 22	
Swap contracts	334,235	4,746	6,483	20%	1,707	1,080	
Options purchased	22,196	163	269	20%	72	106	
					1,810	1,208	
Foreign exchange contracts:							
Spot and forward contracts	536,945	6,491	11,712	20%	2,881	2,169	
Swap contracts	21,775	1,292	2,436	20%	510	525	
Options purchased	33,469	543	938	20%	241	128	
					3,632	2,822	
Other	3,153	35	128	20%	34	29	
Total derivatives		\$13,378	\$22,104		\$ 5,476	\$ 4,059	
Total off-balance sheet financial instruments			\$57,865		\$ 29,221	\$ 26,943	
Total risk-adjusted assets					\$121,350	\$120,158	

(1) Commitments to extend credit are as at September 30.

(2) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements.

(3) Credit-equivalent amounts for derivatives consist of (i) the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements, and (ii) an amount for potential exposure on the basis of the total notional amount split by remaining term to maturity, calculated in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

(4) Futures, some purchased options, and some precious metal and equity-linked contracts are traded on exchanges and are subject to daily margin requirements. Therefore, such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk. Written options are excluded from the calculation of risk-adjusted assets as they represent obligations (rather than assets) of the bank and as such do not attract credit risk.

Canada, allow a portion of general provisions for credit losses, including those related to country risk, to be included in Tier 2 capital, while cumulative permanent preferred shares are classified as Tier 1, not Tier 2, capital. A deduction from Tier 1 capital is required for the amount of deferred tax assets that will not be realized within 1 year. The bank has calculated its capital ratios in accordance with U.S. requirements as if it were able to file consolidated tax returns, as is allowed in the United States. Accordingly, the amount deducted from Tier 1 capital was \$176 million. In addition, the impact of master netting agreements is recognized for both the current replacement values and potential exposures of qualifying derivative contracts.

Using the U.S. definition, the bank's Tier 1 and Total capital ratios were 7.2% and 10.3% respectively at year-end 1995, up from 6.5% and 10.0% at the end of 1994.

Changes in Regulatory Capital

Tier 1 capital increased by \$761 million in 1995, largely reflecting a record level of internally generated capital totalling \$719 million this year. As a result, common shareholders' equity rose to \$7.0 billion at year-end 1995 from \$6.3 billion a year ago.

Tier 2 capital declined by \$373 million, partially reflecting the redemption on July 31, 1995 of the bank's \$1.45 First Preferred Shares Series B totalling \$272 million. Subordinated debentures for regulatory capital purposes declined by \$100 million. This reduction reflected the repurchase in the fourth quarter of US\$100 million of subordinated debentures due September 30, 1998 and greater amounts for the

amortization of subordinated debentures maturing in the next five years. Partially offsetting these factors was the issuance in this year's first quarter of \$200 million of 10% subordinated debentures due November 14, 2014.

As shown in Table 26 on page 57, the risk-adjusted balance of on-balance sheet assets declined by \$1.1 billion or 1% in 1995, even though balance sheet assets grew by 6%. This stemmed from the greater proportion of lower risk assets on the bank's balance sheet during the year.

Risk-adjusted balances related to off-balance sheet financial instruments were up \$2.3 billion this year, reflecting growth in commitments to extend credit and in the bank's derivatives business, particularly in interest rate swaps and foreign exchange forward contracts. Clients have increasingly used these products to manage their exchange and interest rate risks.

Risk-adjusted assets and off-balance sheet financial instruments represented 66% of total assets at October 31, 1995, compared to 86% in 1991. The reduction reflected the bank's efforts to improve its risk profile over the last several years as well as the addition in 1993 of Royal Trust, whose balance sheet at the time of acquisition largely comprised low-risk residential mortgages.

Recent Regulatory Developments

In the past two years, the BIS has made a number of amendments to its risk-based capital framework. In 1994, the framework was amended to recognize the risk-reducing benefits of qualifying bilateral netting arrangements. Amendments made in 1995 included a formula for recognizing the effects of netting

on potential future exposure and other changes in the method of calculating the credit-equivalent amount of derivative transactions. The Superintendent of Financial Institutions Canada's implementation of the amendments concerning netting are still under discussion. The amendments are not expected to have a significant impact on the bank's Tier 1 and Total capital ratios.

In 1995, the BIS requested comments on a proposal (revised from an earlier version in 1993) for amending the 1988 Capital Accord to cover market risk. The proposal is expected to be finalized by December 1995 and implemented on December 31, 1997. The consolidated market risk of the bank's trading activities will require capital underpinning. In addition to quantitative standards, the proposal also sets out rigorous qualitative standards that regulators expect banks to adhere to in the management of market risk.

Royal Bank shares the strong interest of banking supervisors in a regulatory proposal that enforces the best risk management practices. However, during the recent BIS consultative process, the Canadian banking industry has expressed concerns to the Superintendent of Financial Institutions Canada about the appropriateness of certain quantitative methods and the proposed level of capitalization.

Royal Bank does not expect a material impact on its regulatory capital requirements as a result of these proposed amendments to the Capital Accord.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the

board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche and Price Waterhouse, the independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the bank's financial reporting and the adequacy of the system of internal controls.

JOHN E. CLEGHORN

Chairman & Chief Executive Officer

J. EMILIEN BOLDUC

Vice-Chairman & Chief Financial Officer

MONTREAL, DECEMBER 5, 1995

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ROYAL BANK OF CANADA

We have audited the consolidated balance sheets of Royal Bank of Canada as at October 31, 1995 and 1994 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended October 31, 1993 were audited by Deloitte & Touche and Peat Marwick Thorne who expressed an opinion thereon without reservation in their report dated December 6, 1993.

DELOITTE & TOUCHE

PRICE WATERHOUSE

Chartered Accountants

MONTREAL, DECEMBER 5, 1995

CONSOLIDATED BALANCE SHEET		
<i>As at October 31 (in millions of dollars)</i>	1995	1994
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	\$ 1,117	\$ 1,187
Deposits with other banks		
Interest bearing	16,290	14,216
Non-interest bearing	303	1,046
	17,710	16,449
Securities (note 3)		
Investment account	19,105	15,677
Trading account	12,938	11,098
Loan substitute	662	920
	32,705	27,695
Loans (note 4)		
Residential mortgages	45,088	44,086
Consumer instalment, credit card and other personal loans	20,268	19,758
Business and government loans	49,630	46,283
Assets purchased under reverse repurchase agreements	4,591	5,259
	119,577	115,386
Other		
Customers' liability under acceptances	6,300	6,205
Premises and equipment (note 6)	1,870	1,975
Other assets (note 7)	5,490	5,369
	13,660	13,549
	\$183,652	\$173,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (note 8)		
Consumers	\$ 89,929	\$ 85,214
Businesses and governments	39,900	36,422
Banks	13,662	14,179
	143,491	135,815
Acceptances	6,300	6,205
Obligations related to assets sold under repurchase agreements	4,090	5,341
Obligations related to securities sold short	7,128	5,569
Other liabilities (note 9)	10,077	8,083
Subordinated debentures (note 10)	3,534	3,477
	174,620	164,490
Shareholders' equity		
Capital stock (note 11)		
Preferred	1,990	2,266
Common	2,910	2,910
Retained earnings	4,132	3,413
	9,032	8,589
	\$183,652	\$173,079

JOHN E. CLEGHORN
Chairman & Chief Executive Officer

JOHN R. EVANS
Director

CONSOLIDATED STATEMENT OF INCOME			
For the year ended October 31 (in millions of dollars, except per share amounts)	1995	1994	1993
Interest income			
Loans	\$10,149	\$ 8,889	\$8,104
Securities	1,750	1,369	1,245
Deposits with banks	817	479	321
	12,716	10,737	9,670
Interest expense			
Deposits	7,370	5,521	4,923
Subordinated debentures	320	268	245
Other	359	280	109
	8,049	6,069	5,277
Net interest income	4,667	4,668	4,393
Provision for credit losses	580	820	1,750
	4,087	3,848	2,643
Other income			
Deposit and payment service charges	681	661	649
Capital market fees	434	567	456
Investment management and custodial fees	286	278	101
Card service revenues	278	258	203
Trading revenues	251	205	228
Mutual fund revenues	190	202	64
Other	470	481	369
	2,590	2,652	2,070
	6,677	6,500	4,713
Non-interest expenses			
Human resources	2,563	2,675	2,310
Occupancy	453	478	418
Equipment	506	460	396
Communications	461	450	377
Restructuring	—	—	410
Other	654	576	478
	4,637	4,639	4,389
Net income before income taxes	2,040	1,861	324
Income taxes (note 12)	755	655	(5)
Net income before non-controlling interest	1,285	1,206	329
Non-controlling interest in net income of subsidiaries	23	37	29
Net income	\$ 1,262	\$ 1,169	\$ 300
Earnings per common share (note 13)	\$ 3.49	\$ 3.19	\$ 0.46

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY			
<i>For the year ended October 31 (in millions of dollars)</i>	1995	1994	1993
Preferred shares			
Balance at beginning of year	\$2,266	\$2,248	\$1,594
Issue of preferred shares for cash	—	—	612
Preferred shares redeemed and purchased for cancellation (<i>note 11</i>)	(272)	—	—
Translation adjustment on shares denominated in foreign currency	(4)	18	42
Balance at end of year	\$1,990	\$2,266	\$2,248
Common shares	\$2,910	\$2,910	\$2,910
Retained earnings			
Balance at beginning of year	\$3,413	\$2,772	\$3,002
Net income	1,262	1,169	300
Dividends (<i>note 11</i>)	(535)	(532)	(518)
Share issue costs, net of income taxes	—	—	(11)
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	(8)	4	(1)
Balance at end of year	\$4,132	\$3,413	\$2,772
Shareholders' equity at end of year	\$9,032	\$8,589	\$7,930

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended October 31 (in millions of dollars)

	1995	1994	1993
Cash flows from operating activities			
Net income	\$1,262	\$1,169	\$ 300
Adjustments to determine cash flows from operating activities:			
Provision for credit losses	580	820	1,750
Net change in accrued interest receivable and payable	565	(414)	(267)
Deferred income taxes, net (note 12)	391	183	(706)
Depreciation	360	335	277
Net increase in trading account securities	(1,840)	(2,789)	(1,093)
Other items, net	12	(310)	219
	1,330	(1,006)	480
Cash flows from financing activities			
Net increase in deposits	7,676	5,416	1,475
Issue of subordinated debentures (note 10)	200	—	110
Issue of preferred shares	—	—	612
Subordinated debentures repurchased and cancelled (note 10)	(135)	—	—
Preferred shares redeemed and purchased for cancellation (note 11)	(272)	—	—
Dividends (note 11)	(535)	(532)	(518)
Net change in obligations related to assets sold with recourse or under repurchase agreements	(1,606)	3,215	2,375
Other items, net	1,215	(1,185)	1,533
	6,543	6,914	5,587
Cash flows from investing activities			
Net increase in loans	(5,439)	(337)	(544)
Net increase in investment account and loan substitute securities	(3,153)	(272)	(4,857)
Net change in non-operating deposits with other banks	(1,328)	(5,638)	1,777
Net acquisitions of premises and equipment	(255)	(253)	(212)
Net change related to assets purchased under reverse repurchase agreements	668	45	(4,697)
Net increase in obligations related to securities sold short	1,559	207	1,734
Consideration paid for purchase of Royal Trust	—	—	(1,628)
	(7,948)	(6,248)	(8,427)
Net decrease in cash and cash equivalents	(75)	(340)	(2,360)
Cash and cash equivalents, at beginning of year	1,182	1,522	1,771
Royal Trust – cash and cash equivalents at date of acquisition	—	—	2,111
Cash and cash equivalents, at end of year	\$1,107	\$1,182	\$1,522
Consisting of:			
Cash and deposits with Bank of Canada	\$1,117	\$1,187	\$1,373
Operating balances on deposit with other banks	598	595	472
Cheques and other items in transit, net (note 9)	(608)	(600)	(323)
Total	\$1,107	\$1,182	\$1,522

(ALL TABULAR AMOUNTS ARE IN MILLIONS
OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Pursuant to the Bank Act, the consolidated financial statements of Royal Bank of Canada are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Note 19 to the consolidated financial statements describes and reconciles the differences between Canadian and United States generally accepted accounting principles.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these financial statements are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years.

The equity method is used to account for investments in associated corporations, which are corporations in which the bank holds at least a 20% interest but does not exercise control. The bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income. Other foreign currency translation gains and losses (net of hedging activities) are included in income.

SECURITIES

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in interest income from securities.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal, and unrealized valuation adjustments, are included in interest income from securities in the period in which they occur.

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to Loans.

LOANS

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

Non-accrual loans are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances are automatically placed on a non-accrual basis unless they are well secured and in the process of collection. All loans are classified on a non-accrual basis when a payment is 180 days in arrears. Upon classification of a loan to a non-accrual basis, any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on non-accrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis as long as there is no reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the customer's credit-worthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory, or fixed assets.

Capitalization of interest occurs only when this forms part of the terms of credit and management has determined that the collectibility of both principal and interest is not reasonably in doubt.

Assets acquired in satisfaction of a problem loan are recorded at the lesser of fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of these assets are treated as loan write-offs or recoveries.

Fees which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest income" over the expected term of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. Credit losses arise primarily from loans but also relate to deposits with other banks, derivatives, loan substitute securities and other

credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to less developed countries (LDCs).

Specific provisions are established on an individual facility basis to recognize credit losses on business and government loans. For residential mortgages and consumer loans (excluding credit card balances), aggregate provisions are recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A *country risk provision* is made in respect of aggregate exposure in a number of LDCs based on an overall assessment of the underlying economic conditions in those countries.

General provisions are established to absorb credit losses attributable to the deterioration of credit quality on aggregate exposures including those in particular industries or geographic regions (excluding LDCs), for which specific provisions cannot yet be determined.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Losses realized on sales and exchanges of LDC loans represent the excess of the face value of the loans given up over the cash and/or the fair value of the loans or securities received.

ACCEPTANCES

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an offsetting asset of the same amount.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives as indicated herein. Gains and losses on disposal are recorded in "Other income".

BUILDINGS	25 to 50 years
COMPUTER EQUIPMENT	3 to 10 years
FURNITURE, FIXTURES AND OTHER EQUIPMENT	7 to 10 years
LEASEHOLD IMPROVEMENTS	term of lease plus first option period

INCOME TAXES

The tax allocation basis of accounting is followed, under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes, regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included in "Other assets". In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than it would be if based on statutory rates.

DERIVATIVES

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, derivatives are marked to market and the resultant gains and losses are recognized in "Other income" immediately, except where the portfolio is primarily comprised of instruments with initial terms of more than two years. In the latter case, a portion of the mark to market gain is deferred and amortized to "Other income" over the life of the instruments to cover related credit risk and administrative expenses. Market values are determined using pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Unrealized gains and losses on portfolios of derivatives are netted and reported in "Other assets" or "Other liabilities".

Gains and losses on derivatives which the bank enters into for purposes of hedging its own risk exposures are generally deferred and amortized over the lives of the hedged assets or liabilities as adjustments to interest income or interest expense.

POSTRETIREMENT BENEFITS

The bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans which offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are primarily comprised of equity securities and bonds and debentures.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values, with adjustments to bring the value of the assets to market value being made over a three year period.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reported as "prepaid pension cost" in "Other assets".

The bank also provides health and dental care benefits and life insurance coverage to employees who retire after ten years service, and to their dependents. Costs of providing these benefits are charged to income as expenditures are incurred.

NOTE 2. DOMESTIC AND INTERNATIONAL OPERATIONS

The bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of the international money market units. These units' activities, together with the bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of the bank's Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

	DOMESTIC			INTERNATIONAL			TOTAL		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
Net interest income – taxable equivalent basis	\$3,976	\$3,980	\$3,647	\$ 731	\$ 737	\$ 807	\$4,707	\$4,717	\$4,454
Deduct: Taxable equivalent adjustment*	39	48	60	1	1	1	40	49	61
Net interest income – financial statement basis	3,937	3,932	3,587	730	736	806	4,667	4,668	4,393
Provision for credit losses	484	786	1,839	96	34	(89)	580	820	1,750
	3,453	3,146	1,748	634	702	895	4,087	3,848	2,643
Other income	1,994	2,115	1,621	596	537	449	2,590	2,652	2,070
	5,447	5,261	3,369	1,230	1,239	1,344	6,677	6,500	4,713
Non-interest expenses**	3,982	4,015	3,870	655	624	519	4,637	4,639	4,389
	1,465	1,246	(501)	575	615	825	2,040	1,861	324
Income taxes	641	493	(273)	114	162	268	755	655	(5)
	824	753	(228)	461	453	557	1,285	1,206	329
Non-controlling interest in net income of subsidiaries	21	35	27	2	2	2	23	37	29
Net income (loss)	\$ 803	\$ 718	\$ (255)	\$ 459	\$ 451	\$ 555	\$1,262	\$1,169	\$ 300
Average total assets	\$138,700	\$134,100	\$112,800	\$34,400	\$32,600	\$29,700	\$173,100	\$166,700	\$142,500

* The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at a rate of 42.7% (1994 and 1993 – 42.4%), would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

** Non-interest expenses of 1993 include restructuring costs of \$410 million relating to rationalization of activities and employee reductions throughout the Royal Bank group. Of this amount, \$300 million relates to the integration of Royal Trust and \$110 million relates to a further downsizing of the bank itself. (On September 1, 1993, the bank acquired 100% of the shares of certain operating subsidiaries of Gentra Inc., including The Royal Trust Company and Royal Trust Corporation of Canada. This acquisition was accounted for using the purchase method.)

NOTE 3. SECURITIES

	TERM TO MATURITY				1995	1994
	WITHIN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL	TOTAL
Investment account securities						
Canadian government debt ⁽¹⁾						
Carrying value	\$ 6,385	\$ 6,065	\$ 904	\$ 104	\$13,458	\$10,642
Estimated market value	6,424	6,177	913	101	13,615	10,456
Yield ⁽²⁾	7.0%	7.5%	7.5%	7.7%	7.3%	6.0%
Securities of U.S. Treasury and other U.S. Agencies						
Carrying value	448	317	210	8	983	1,143
Estimated market value	449	315	211	8	983	1,143
Yield ⁽²⁾	5.9%	5.8%	6.1%	5.6%	5.9%	4.7%
Foreign OECD government debt (other than U.S.)						
Carrying value	388	307	268	161	1,124	1,278
Estimated market value	387	315	276	140	1,118	1,256
Yield ⁽²⁾	7.6%	6.7%	7.4%	10.7%	7.8%	5.5%
Mortgage-backed securities						
Carrying value	128	1,210	—	—	1,338	392
Estimated market value	105	1,241	—	—	1,346	382
Yield ⁽²⁾	8.1%	7.7%	—	—	7.8%	7.5%
Other debt						
Carrying value	477	401	402	35	1,315	1,217
Estimated market value	481	408	413	35	1,337	1,149
Yield ⁽²⁾	5.9%	6.4%	7.0%	8.0%	6.5%	6.6%
Bonds of less developed countries ⁽³⁾						
Carrying value	—	—	—	797	797	829
Estimated market value	—	—	—	834	834	829
Yield ⁽²⁾	—	—	—	11.2%	11.2%	10.8%
Equities ⁽⁴⁾						
Carrying value	—	—	—	86	86	172
Estimated market value	—	—	—	99	99	186
Yield ⁽²⁾	—	—	—	7.6%	7.6%	2.1%
Securities of associated corporations ⁽⁴⁾						
Carrying value	—	—	—	4	4	4
Estimated market value	—	—	—	4	4	4
Yield ⁽²⁾	—	—	—	—	—	—
Total investment account securities						
Carrying value	7,826	8,300	1,784	1,195	19,105	15,677
Estimated market value	7,846	8,456	1,813	1,221	19,336	15,405
Trading account securities						
Canadian government debt ⁽¹⁾	3,462	1,979	1,832	960	8,233	7,745
Securities of U.S. Treasury and other U.S. Agencies	10	128	179	—	317	158
Foreign OECD government debt (other than U.S.)	—	572	90	—	662	13
Other debt	1,788	327	394	386	2,895	2,649
Equities ⁽⁴⁾	—	—	—	831	831	533
	5,260	3,006	2,495	2,177	12,938	11,098
Loan substitute securities ⁽⁵⁾	61	252	44	305	662	920
Total	\$13,147	\$11,558	\$4,323	\$3,677	\$32,705	\$27,695

(1) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.

(2) Represents weighted-average yield based on the carrying value at the end of the year for the respective securities.

(3) These securities include restructured collateralized bonds of less developed countries, net of a country risk provision of \$666 million (1994 – \$643 million).

(4) Equities, which have no stated term, have been classified under the "Over 10 years" column.

(5) The market value of loan substitute securities approximates carrying value.

NOTE 3. SECURITIES (CONTINUED)

UNREALIZED GAINS AND LOSSES ON INVESTMENT ACCOUNT SECURITIES								
	1995				1994			
	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Canadian government debt	\$13,458	\$189	\$ (32)	\$13,615	\$10,642	\$ 7	\$(193)	\$10,456
Securities of U.S. Treasury and other U.S. Agencies	983	4	(4)	983	1,143	—	—	1,143
Foreign OECD government debt (other than U.S.)	1,124	25	(31)	1,118	1,278	—	(22)	1,256
Mortgage-backed securities	1,338	42	(34)	1,346	392	—	(10)	382
Other debt	1,315	26	(4)	1,337	1,217	2	(70)	1,149
Bonds of less developed countries	797	37	—	834	829	—	—	829
Equities	86	19	(6)	99	172	25	(11)	186
Securities of associated corporations	4	—	—	4	4	—	—	4
	\$19,105	\$342	\$(111)	\$19,336	\$15,677	\$34	\$(306)	\$15,405

NOTE 4. LOANS

	1995	1994
Domestic*		
Residential mortgages	\$ 44,608	\$ 43,548
Consumer instalment, credit card and other personal loans	19,743	19,312
Business and government loans	34,790	32,698
Assets purchased under reverse repurchase agreements	4,007	5,208
	103,148	100,766
Allowance for credit losses	(1,487)	(2,000)
	101,661	98,766
International*		
Residential mortgages	524	561
Consumer instalment, credit card and other personal loans	615	517
Business and government loans	16,709	16,050
Assets purchased under reverse repurchase agreements	584	51
	18,432	17,179
Allowance for credit losses	(516)	(559)
	17,916	16,620
Total**	\$119,577	\$115,386

* Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The loans of these units, together with loans booked outside Canada, comprise International loans.

** Loans are reported net of unearned income of \$257 million (1994 – \$237 million).

NON-ACCRUAL LOANS (INCLUDED ABOVE)	1995	1994
Domestic	\$2,439	\$3,784
International, excluding LDC loans	446	570
LDC loans	59	70
	2,944	4,424
Allowance for credit losses*	(1,796)	(2,331)
Total net non-accrual loans	\$1,148	\$2,093

* The allowance for credit losses is shown net of that portion of the country risk provision that is in excess of non-accrual LDC loans in the amount of \$873 million (1994 – \$871 million).

NOTE 4. LOANS (CONTINUED)

RESTRUCTURED LOANS

The bank's only significant loan restructurings have resulted in the receipt of "Bonds of less developed countries" and, in the case of Mexican debt, in the receipt of "Foreign OECD government debt". These bonds, which are included in investment account securities, result from the following restructurings:

The 1994 exchange of \$1.2 billion of Brazilian loans for \$1.1 billion of bonds (\$800 million of which are collateralized by zero coupon U.S. Treasury securities) plus \$135 million of past due interest bonds. The bonds carry interest rates that vary from 4% (gradually rising to 8%) to LIBOR plus 7/8%;

The 1994 exchange of \$80 million of Dominican Republic loans for \$35 million of 30 year discount bonds (collateralized by zero coupon U.S. Treasury securities), \$20 million of past due interest bonds all of which bear interest at LIBOR plus 13/16% and \$11 million in cash;

The 1993 exchange of \$300 million of Argentine loans for \$285 million of par and discount bonds with interest rates ranging from 4% (gradually increasing to 6%) to LIBOR plus 13/16%, plus \$9 million of past due interest bonds;

The 1990 receipt of interest-rate reduction bonds of \$230 million, bearing a fixed interest rate of 6.25% (which are collateralized by zero coupon U.S. Treasury securities), in connection with the Mexican debt restructuring agreement; and

The 1990 receipt of interest-rate reduction bonds of \$260 million, bearing a fixed interest rate of 6.75% (which are collateralized by zero coupon U.S. Treasury securities), in connection with the Venezuela Financing Plan.

The total market and carrying values of the above restructured bonds as at October 31, 1995 were \$1,031 million and \$953 million, respectively.

EFFECT OF NON-ACCRUAL LOANS ON NET INTEREST INCOME			
	1995	1994	1993
Domestic			
Gross amount of interest that would have been recorded at the original contract rate	\$211	\$308	\$398
Interest reversals on newly classified non-accrual loans	(24)	(53)	(52)
Interest received on non-accrual loans	39	75	43
Net interest earned on non-accrual loans, as reported	15	22	(9)
Negative effect on reported net interest income	\$196	\$286	\$407
International			
Gross amount of interest that would have been recorded at the original contract rate	\$ 47	\$88	\$117
Interest reversals on newly classified non-accrual loans	—	(4)	(5)
Interest received on non-accrual loans — LDCs	2	123	172
— other	18	9	16
Net interest earned on non-accrual loans, as reported	20	128	183
Negative (positive) effect on reported net interest income	\$ 27	\$(40)	\$(66)
Total bank			
Gross amount of interest that would have been recorded at the original contract rate	\$258	\$396	\$515
Interest reversals on newly classified non-accrual loans	(24)	(57)	(57)
Interest received on non-accrual loans — LDCs	2	123	172
— other	57	84	59
Net interest earned on non-accrual loans, as reported	35	150	174
Negative effect on reported net interest income	\$223	\$246	\$341

RECENTLY ISSUED IMPAIRED LOANS ACCOUNTING STANDARD

The Canadian Institute of Chartered Accountants has issued a new standard relating to accounting for impaired loans. Implementation guidelines have also been issued by the Superintendent of Financial Institutions Canada.

The new standard, which becomes effective in the year commencing November 1, 1995, requires impaired loans to be measured based on the present value of expected future cash flows discounted at the interest rate inherent in the original loan.

This accounting standard will be implemented on a retroactive basis, with no restatement of prior years' balance sheets, resulting in a \$130 million increase in the allowance for credit losses and an after-tax decrease of \$75 million to retained earnings as at November 1, 1995.

NOTE 5. ALLOWANCE FOR CREDIT LOSSES

			1995	1994
	DOMESTIC	INTERNATIONAL	TOTAL	TOTAL
Balance at beginning of year	\$2,000	\$1,202	\$3,202	\$4,324
Provision for credit losses	484	96	580	820
Write-offs	(1,092)	(125)	(1,217)	(1,886)
Recoveries	102	10	112	88
Losses realized on sales and exchanges of LDC loans	—	—	—	(181)
Transfers and translation adjustments on provisions denominated in foreign currencies	(7)	(1)	(8)	37
Balance at end of year	\$1,487	\$1,182	\$2,669	\$3,202
Consisting of:				
Specific provisions	\$1,187	\$ 253	\$1,440	\$1,962
Country risk provision*	—	929	929	940
General provisions	300	—	300	300
Total	\$1,487	\$1,182	\$2,669	\$3,202

* The country risk provision includes an amount of \$666 million (1994 – \$643 million) which has been deducted from securities in respect of restructured collateralized bonds of less developed countries.

NOTE 6. PREMISES AND EQUIPMENT

			1995	1994
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	\$ 215	\$ —	\$ 215	\$ 214
Buildings	1,101	370	731	741
Computer equipment	1,370	972	398	450
Furniture, fixtures and other equipment	889	581	308	334
Leasehold improvements	545	327	218	236
	\$4,120	\$2,250	\$1,870	\$1,975

NOTE 7. OTHER ASSETS

	1995	1994
Deferred income taxes, net	\$1,264	\$1,608
Accrued interest	1,218	1,049
Assets sold with recourse	816	1,171
Goodwill	333	365
Amounts receivable from brokers, dealers and clients	329	85
Prepaid pension cost	229	218
Other items, including accounts receivable and prepaid expenses	1,301	873
	\$5,490	\$5,369

NOTE 8. DEPOSITS

	PAYABLE ON DEMAND				PAYABLE AFTER NOTICE		PAYABLE ON A FIXED DATE		TOTAL	
	INTEREST BEARING		NON-INTEREST BEARING							
	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994
Domestic*										
Consumers	\$1,279	\$1,169	\$1,606	\$1,632	\$25,628	\$26,896	\$56,147	\$50,307	\$ 84,660	\$ 80,004
Businesses and governments	4,159	2,121	6,737	5,324	6,909	8,153	9,895	9,146	27,700	24,744
Banks	90	90	602	634	5	5	1,721	622	2,418	1,351
	5,528	3,380	8,945	7,590	32,542	35,054	67,763	60,075	114,778	106,099
International*										
Consumers	233	309	148	132	913	903	3,975	3,866	5,269	5,210
Businesses and governments	1,396	1,278	309	221	516	594	9,979	9,585	12,200	11,678
Banks	88	182	166	117	—	380	10,990	12,149	11,244	12,828
	1,717	1,769	623	470	1,429	1,877	24,944	25,600	28,713	29,716
Total	\$7,245	\$5,149	\$9,568	\$8,060	\$33,971	\$36,931	\$92,707	\$85,675	\$143,491	\$135,815

* Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The deposits of these units, together with deposits booked outside Canada, comprise International deposits.

NOTE 9. OTHER LIABILITIES

	1995	1994
Secured liabilities of subsidiaries other than deposits	\$ 2,843	\$2,247
Accrued interest	2,483	1,749
Amounts payable to brokers, dealers and clients	903	365
Obligations related to assets sold with recourse	816	1,171
Cheques and other items in transit, net	608	600
Dividends payable	125	123
Non-controlling interest in subsidiaries	107	93
Other items, including accounts payable and accrued expenses	2,192	1,735
	\$10,077	\$8,083

NOTE 10. SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases and cancellations of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

MATURITY	RATE		DENOMINATED IN U.S.	1995	1994
Royal Bank of Canada					
June 1, 1998	10.80%		—	\$ 200	\$ 200
September 30, 1998		(1)	100	—	135
January 15, 1999	10.90%		—	250	250
October 14, 1999	10.20%		—	250	250
July 1, 2000	11.00%		—	200	200
January 31, 2001	11.75%		—	200	200
August 15, 2001		(2)	219	294	296
January 11, 2002	11.00%		—	300	300
March 1, 2002	10.50%		—	250	250
July 5, 2005		(3)	350	471	474
November 14, 2014	10.00%		—	200	—
June 8, 2023	9.30%		—	110	110
October 1, 2083		(4)	—	250	250
June 6, 2085		(5)	300	403	406
Royal Trust Corporation of Canada					
November 9, 1998		(6)	50	68	68
January 27, 1999		(7)	65	88	88
				\$3,534	\$3,477

(1) During 1995, the bank repurchased and cancelled the September 30, 1998 subordinated debentures at 99.37% of their face value.

(2) The August 15, 2001 debentures, issued in Canadian dollars and bearing interest at a rate of 10.75%, were swapped at their issue date into a U.S. dollar obligation, bearing interest at a rate of 0.215% above the three-month LIBOR.

(3) The July 5, 2005 debentures bear interest at a rate of 0.0625% above the three-month LIBOR.

(4) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.

(5) The June 6, 2085 debentures bear interest at a rate equal to 0.25% above the three-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

(6) The November 9, 1998 debentures, issued in Yen and bearing interest at 7.7% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation, bearing interest at a rate of 0.2% above the six-month LIBOR.

(7) The January 27, 1999 debentures, issued in Yen and bearing interest at 7.5% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation, bearing interest at a rate of 0.08% above the six-month LIBOR.

REPAYMENT SCHEDULE

The aggregate sinking fund requirements and maturities of the debentures, assuming the earliest possible dates of maturity under the terms of issue, are as follows:

Within 1 year	\$ —
From 1 to 5 years	1,056
From 5 to 10 years	1,515
Over 10 years	963
	\$3,534

NOTE 11. CAPITAL STOCK

AUTHORIZED CAPITAL STOCK

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed \$5 billion in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration for which all common shares may be issued shall not exceed \$10 billion.

OUTSTANDING CAPITAL STOCK	1995		1994		1993	
	NUMBER OF SHARES (in thousands)	AMOUNT	NUMBER OF SHARES (in thousands)	AMOUNT	NUMBER OF SHARES (in thousands)	AMOUNT
Preferred (1)						
\$1.45 Cumulative Redeemable Series B (2)	—	\$ —	13,600	\$ 272	13,600	\$ 272
Cumulative Redeemable Series C (3)	1,000	100	1,000	100	1,000	100
U.S.\$ Cumulative Redeemable Series D (3)	1,000	135	1,000	135	1,000	132
Cumulative Redeemable Series E (4)	1,500	150	1,500	150	1,500	150
Non-cumulative Series F (5)	6,000	150	6,000	150	6,000	150
Non-cumulative Series G (6)	10,000	250	10,000	250	10,000	250
Non-cumulative Series H (7)	12,000	300	12,000	300	12,000	300
U.S.\$ Non-cumulative Series I (8)	8,000	269	8,000	271	8,000	264
Non-cumulative Series J (9)	12,000	300	12,000	300	12,000	300
U.S.\$ Non-cumulative Series K (10)	10,000	336	10,000	338	10,000	330
Total outstanding preferred stock		1,990		2,266		2,248
Total outstanding common stock (11)	314,155	2,910	314,155	2,910	314,155	2,910
Total outstanding capital stock		\$4,900		\$5,176		\$5,158

- (1) All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. First Preferred Shares Series F, G, H and J are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of \$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the First Preferred Shares Series G, H and J will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing \$25 by 95% of the average market price of the Common Shares at such time. First Preferred Shares Series I and K are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of U.S.\$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing U.S.\$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each such share will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing U.S.\$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.
- (2) During 1995, the bank redeemed and purchased for cancellation the **First Preferred Shares Series B** at their face value.
- (3) The dividends on the **First Preferred Shares Series C and D** are determined quarterly by applying to Cdn.\$100 and U.S.\$100, respectively, the greater of (i) 6.67% per annum and (ii) 2/3 of the bank's average Canadian and U.S. prime rates respectively for stated periods. Such shares are redeemable by the bank at a price per share of Cdn.\$100 and U.S.\$100, respectively. The bank may, at any time, purchase for cancellation such shares at a price per share not exceeding Cdn.\$100 and U.S.\$100, respectively.
- (4) The dividend on the **First Preferred Shares Series E** is payable monthly and (i) floats in relation to changes in the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. Such shares are redeemable at a price per share of \$100 and the bank may, at any time, purchase for cancellation such shares at a price per share not exceeding \$100.
- (5) The dividend on the **First Preferred Shares Series F** is payable quarterly at a rate equal to the greater of (i) \$0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above.
- (6) The dividend on the **First Preferred Shares Series G** is payable quarterly at a rate of \$0.53125 per share until October 31, 1999 and, thereafter, is payable quarterly at a rate equal to the greater of (i) \$0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above. On and after October 31, 2000, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (7) The dividend on the **First Preferred Shares Series H** is payable quarterly at a rate of \$0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (8) The dividend on the **First Preferred Shares Series I** is payable quarterly at a rate of U.S.\$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (9) The dividend on the **First Preferred Shares Series J** is payable quarterly at a rate of \$0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (10) The dividend on the **First Preferred Shares Series K** is payable quarterly at a rate of U.S.\$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (11) During 1994, the bank introduced a stock option plan for certain key executives. Under this plan, options will periodically be granted to purchase Common Shares at prices not less than the market price of such shares immediately prior to the grant date. The options are exercisable for periods not exceeding ten years. As at October 31, 1995, 10,000,000 shares were authorized for issuance under the plan. Options were granted during 1995 and 1994 for the purchase of 276,800 and 201,600 Common Shares at an exercise price of \$28.91 per share and \$30.48 per share respectively. None of these options have been exercised.

NOTE 11. CAPITAL STOCK (CONTINUED)

DIVIDENDS DECLARED	TOTAL			PER SHARE				
	1995	1994	1993	1995	1994	1993	1992	1991
First Preferred								
Series B	\$ 14	\$ 20	\$ 20	\$1.00	\$1.45	\$1.45	\$1.45	\$1.45
Series C	7	7	7	\$6.67	\$6.67	\$6.67	\$6.67	\$7.57
Series D	9	9	8	US\$6.67	US\$6.67	US\$6.67	US\$6.67	US\$6.67
Series E	9	7	7	\$6.43	\$4.84	\$4.84	\$5.68	\$8.18
Series F	14	14	14	\$2.25	\$2.25	\$2.25	\$2.25	\$2.25
Series G	21	21	21	\$2.13	\$2.13	\$2.13	\$2.13	\$2.13
Series H	27	27	27	\$2.25	\$2.25	\$2.25	\$2.25	\$0.85
Series I	21	21	19	US\$1.91	US\$1.91	US\$1.91	US\$1.91	US\$0.28
Series J	21	21	16	\$1.78	\$1.78	\$1.32	—	—
Series K	21	21	15	US\$1.58	US\$1.58	US\$1.17	—	—
	164	168	154					
Common	371	364	364	\$1.18	\$1.16	\$1.16	\$1.16	\$1.16
	\$535	\$532	\$518					

NOTE 12. INCOME TAXES

	1995	1994	1993
Income taxes reported in the financial statements are as follows:			
In income	\$755	\$655	\$ (5)
In retained earnings			
Share issue costs	—	—	(8)
Unrealized foreign currency translation gains and losses, net of hedging activities	22	(95)	(82)
Total income taxes	\$777	\$560	\$ (95)
The current and deferred income taxes are as follows:			
Current income taxes:			
Domestic			
Federal	\$246	\$242	\$468
Provincial	87	71	110
	333	313	578
Foreign	53	64	33
	386	377	611
Deferred income taxes:			
Domestic			
Federal	271	130	(545)
Provincial	118	51	(164)
	389	181	(709)
Foreign	2	2	3
	391	183	(706)
Total income taxes	\$777	\$560	\$ (95)

	1995		1994	1993
Income taxes in the Consolidated Statement of Income vary from the amount that would be computed by applying the composite federal and provincial statutory income tax rate of 42.7% (1994 and 1993 – 42.4%) for the following reasons :				
Income taxes at statutory rate	\$871	42.7%	\$789	\$ 137
Increase (decrease) in income taxes resulting from:				
Lower average tax rate applicable to subsidiaries	(129)	(6.3)	(101)	(105)
Tax-exempt income from securities, primarily loan substitute securities	(22)	(1.1)	(28)	(35)
Other, net	35	1.7	(5)	(2)
	\$755	37.0%	\$655	\$ (5)

NOTE 12. INCOME TAXES (CONTINUED)

	1995	1994
The tax effects of timing differences which give rise to the net deferred income tax asset reported in "Other assets" are as follows:		
Deferred income tax asset:		
Allowance for credit losses	\$ 720	\$ 980
Tax loss carryforwards	125	118
Interest on non-accrual loans	130	182
Other	456	474
	1,431	1,754
Deferred income tax liability:		
Pension expense	(99)	(92)
Lease receivables	(30)	(44)
Other	(38)	(10)
	(167)	(146)
Net deferred income tax asset	\$1,264	\$1,608

The bank has determined that it is virtually certain that its net deferred income tax asset will be realized through a combination of future reversals of timing differences and taxable income.

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized

a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings of \$2.8 billion were repatriated are estimated at \$509 million as at October 31, 1995.

NOTE 13. EARNINGS PER COMMON SHARE

Earnings per common share has been calculated after deducting preferred dividends of \$164 million (1994 – \$168 million; 1993 – \$154 million) and has been based on an average number of Common Shares outstanding of 314,154,963 in 1995, 1994 and 1993.

NOTE 14. POSTRETIREMENT BENEFITS

A reconciliation of the funded status of the bank's pension plans to the "prepaid pension cost" included in "Other assets" is as follows:

FUNDED STATUS OF PENSION PLANS FOR WHICH ASSETS EXCEED ACCUMULATED BENEFIT OBLIGATION		
	1995	1994
Accumulated benefit obligation:		
Vested	\$2,041	\$1,878
Non-vested	51	60
	2,092	1,938
Effect of future salary increases	339	343
Projected benefit obligation	2,431	2,281
Pension fund assets, at adjusted market values*	2,684	2,531
Funding excess	253	250
Net unrecognized gains	(33)	(53)
Unrecognized transition funding excess	(15)	(21)
Other items, net	24	42
Prepaid pension cost	\$ 229	\$ 218

* The actual market value of the assets at October 31, 1995 was \$2,741 million (1994 – \$2,552 million). Pension fund assets at October 31, 1995 were comprised of equity securities (54%), bonds and debentures (41%), short-term investments (2%), and other investments (3%).

The transition funding excess and net unrecognized gains are amortized to pension expense on a straight-line basis over the expected average remaining service lives of the employees covered by the plans. Assumptions used to determine the present value of the projected benefit obligation included a weighted-average

discount rate of 8.0% (1994 and 1993 – 8.0%) and a weighted-average rate of future salary increases of 5.1% (1994 – 5.1%; 1993 – 5.3%). The assumed weighted-average rate of return on pension fund assets was 8.0% (1994 and 1993 – 8.0%).

NOTE 14. POSTRETIREMENT BENEFITS (CONTINUED)

PENSION EXPENSE			
	1995	1994	1993
Cost of benefits accrued during the year	\$ 64	\$ 61	\$ 50
Interest expense on projected benefit obligation	171	158	139
Actual return on pension fund assets	(33)	(387)	(148)
Net amortization and deferral	(146)	212	(3)
Net pension expense	\$ 56	\$ 44	\$ 38

Postretirement health and dental care and life insurance benefits expense was \$8 million in 1995 (1994 – \$7 million; 1993 – \$7 million).

NOTE 15. CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

ON-BALANCE SHEET FINANCIAL INSTRUMENTS

Of the \$164 billion in total earning assets as at September 30, 1995, 77% relate to the Canadian market and 9% relate to the United States market. No other country accounts for more than 4% of total earning assets.

Of the \$117 billion in total loans as at September 30, 1995, 82% are to borrowers located in Canada, with the largest provincial concentrations being Ontario (39%), British Columbia (15%) and Quebec (11%). No industry accounts for more than 6% of total domestic loans.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financial instruments with contractual amounts representing credit risk

Of the \$102 billion in off-balance sheet financial instruments with contractual amounts representing credit risk as at October 31, 1995, approximately 56% relate to Canada, 23% to the United States and 15% to Europe.

Included in the \$102 billion of these credit instruments are commitments to extend credit totalling \$82 billion, of which 52% relate to Canada and 25% relate to the United States. Of the commitments to extend credit, the largest industry concentrations relate to financial institutions (17%), manufacturing (16%) and mining and energy (15%). No other industry sector exceeds 10% of the total.

Derivatives

The credit risk amount of derivatives, which represents the current replacement value of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral, totalled \$13.4 billion as at October 31, 1995. Based on the location of the ultimate counterparty, 47% of this credit risk amount relates to Europe, 22% to the United States, 16% to Canada and 14% to Asia Pacific.

The largest concentration by counterparty type of this credit risk exposure is with banks (75% of the total).

NOTE 16. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK		
	1995	1994
Guarantees and standby letters of credit	\$ 7,403	\$ 7,115
Securities lending	11,667	7,586
Documentary and commercial letters of credit	836	779
Commitments to extend credit:		
Original term to maturity of one year or less	47,507	45,131
Original term to maturity of more than one year	34,703	33,583
Note issuance/revolving underwriting facilities	205	251
	\$102,321	\$94,445

NOTE 16. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS (CONTINUED)

DERIVATIVES											
NOTIONAL AMOUNTS	TERM TO MATURITY						1995			1994	
	UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Over-the-counter (OTC) contracts:											
Interest rate contracts											
Forward rate agreements	\$ 90,584	\$ 46,466	\$ 21,039	\$ 6,065	\$ —	\$ —	\$ 164,154	\$ 163,267	\$ 887	\$ 92,630	\$ 4,578
Swap contracts	34,915	28,891	58,467	142,672	46,228	23,062	334,235	311,929	22,306	243,643	29,653
Options purchased	2,554	2,176	3,643	10,086	2,755	982	22,196	21,179	1,017	27,271	390
Options written	3,655	2,180	4,195	9,347	2,475	986	22,838	22,838	—	29,758	—
Foreign exchange contracts											
Spot and forward contracts	347,642	105,744	69,647	11,892	1,888	132	536,945	530,890	6,055	397,137	6,963
Cross currency swap contracts	219	87	322	703	473	696	2,500	2,186	314	2,984	373
Cross currency interest rate swap contracts	976	572	1,362	9,618	4,812	1,935	19,275	17,026	2,249	11,599	1,574
Options purchased	21,247	6,541	4,179	1,440	62	—	33,469	33,261	208	20,265	—
Options written	22,186	7,121	4,850	1,286	105	—	35,548	35,548	—	21,263	—
Other contracts (2)	1,515	676	378	501	83	—	3,153	3,153	—	2,226	—
Exchange-traded contracts:											
Interest rate contracts											
Futures — long positions	6,985	6,367	8,566	13,932	271	—	36,121	36,121	—	26,969	—
Futures — short positions	6,415	7,614	1,470	5,542	486	312	21,839	21,338	501	26,320	508
Options purchased	2,539	857	2,522	773	—	—	6,691	6,691	—	2,231	—
Options written	2,699	883	1,351	270	—	—	5,203	5,203	—	—	—
Foreign exchange contracts											
Futures — long positions	95	—	—	—	—	—	95	95	—	57	—
Futures — short positions	107	—	—	—	—	—	107	107	—	548	—
Options purchased	35	10	2	—	—	—	47	47	—	—	—
Options written	—	—	513	—	—	—	513	513	—	—	—
Other contracts (2)	127	—	—	—	—	—	127	127	—	168	—
CREDIT RISK (3)											
	TERM TO MATURITY						1995			1994	
	UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Interest rate contracts											
Forward rate agreements	\$ 56	\$ 29	\$ 18	\$ 5	\$ —	\$ —	\$ 108	\$ 100	\$ 8	\$ 89	\$ 6
Swap contracts	366	249	336	2,067	1,066	662	4,746	4,395	351	2,973	261
Options purchased	7	3	11	67	52	23	163	159	4	295	6
Foreign exchange contracts											
Spot and forward contracts	3,785	1,487	1,112	104	3	—	6,491	6,377	114	5,762	101
Cross currency swap contracts	67	43	42	109	9	27	297	297	—	303	—
Cross currency interest rate swap contracts	218	12	106	443	175	41	995	770	225	532	185
Options purchased	255	156	107	24	1	—	543	541	2	302	—
Other contracts (2)	18	5	4	6	2	—	35	35	—	53	—
Total derivatives	\$4,772	\$1,984	\$1,736	\$2,825	\$1,308	\$753	\$13,378	\$12,674	\$704	\$10,309	\$559
Less impact of master netting agreements:											
With intent to settle net or simultaneously (4)							(188)				
Without intent to settle net or simultaneously (5)							(3,246)				
Total							\$ 9,944				

(1) Includes contracts maturing in over 10 years with a notional value of \$258 million and related credit risk of \$35 million.

(2) Comprised primarily of gold contracts.

(3) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements. Exchange-traded contracts are subject to daily margin requirements and are, therefore, deemed to have no additional credit risk. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.

(4) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

FINANCIAL INSTRUMENTS WITH CONTRACTUAL
AMOUNTS REPRESENTING CREDIT RISK

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held are generally the same as for loans, as described in Note 1.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. *Documentary and commercial letters of credit*, which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less risk than unsecured obligations. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement.

In *securities lending* transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times. The bank has two types of securities lending arrangements: lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently. The credit risk associated with these transactions is considered small as borrowers must meet specific credit standards and must fully collateralize the security loan on a daily basis.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest since it results first from the possibility of unused portions of loan authorizations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Revolving underwriting facilities are arrangements whereby a customer issues short-term notes supported by an undertaking by the bank that if the customer is unable to issue the notes at a predetermined price, the bank will buy them at a prescribed price or guarantee the availability of funds by providing standby credit. *Note issuance facilities* are similar to revolving underwriting facilities, except that the bank underwrites on a "best efforts basis" and is not obligated to buy unsold notes or provide standby credit. The risks associated with note issuance facilities and revolving underwriting facilities are comparable to those of longer-term commitments to extend credit.

DERIVATIVES

The bank deals in interest rate, foreign exchange, and equity and commodity derivatives to earn fees, and generate trading revenues and also utilizes derivatives to manage its own asset/liability exposures.

The table on the previous page provides the notional amounts of the bank's derivatives. Notional amounts are used to calculate payments and are a common measure of business volume, however, they are not indicative of credit or market risk exposure.

Current credit exposure is limited to the amount of loss that the bank would suffer if every counterparty to which the bank was exposed were to default at once (i.e. the current replacement value of all outstanding contracts in a gain position). These amounts, detailed on the table on the previous page, do not consider the value of any collateral. Credit exposure is managed as part of the overall borrowing limits granted to customers. The bank attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy, encouraging counterparties to enter into master netting agreements and other credit-mitigation techniques.

Market risk is the risk to earnings that arises from movements in interest rates, foreign exchange rates, equity prices or commodity prices, and the degree of volatility of these rates and prices. The bank manages its exposure to market risks through the use of risk limits and by entering into offsetting transactions.

Interest Rate Contracts include interest rate swaps, interest rate futures, forward rate agreements and interest rate options.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged.

Interest rate futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established on an organized exchange. Since futures contracts are collateralized by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

Forward rate agreements are effectively tailor-made interest rate futures, negotiated between two counterparties, which call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate, based on a notional amount.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the bank and a customer. The credit risk associated with exchange-traded options is negligible.

Foreign Exchange Contracts include spot and forward contracts, foreign currency futures, foreign currency options, cross currency interest rate swaps and cross currency swaps.

Foreign exchange forward contracts represent commitments to exchange two currencies at a specified future date based on a rate agreed to by both parties at the inception of the contract. Foreign exchange spot contracts are similar to forward contracts except that delivery is within two business days of the contract date. The bank enters into these contracts to service the needs of customers, as a market maker in foreign exchange and to manage its own asset/liability exposures.

Foreign currency futures are contractual obligations to buy or sell a foreign currency on a future date at a specified price

established on an organized exchange. Similar to interest rate futures, they are subject to daily settlement for any change in market value.

Foreign currency options, which can be exchange-traded or entered into directly by the bank and a customer, are similar to interest rate option contracts, except that they are based on currencies.

Cross currency interest rate swaps are transactions in which two parties exchange currencies and interest rates on a specified notional amount for a predetermined period. The notional amount is generally exchanged at inception and re-exchanged at maturity. Cross currency swaps are transactions in which fixed or floating interest payments in one currency are made against receipt of fixed or floating interest payments in another.

Other contracts is comprised primarily of equity-linked and commodity contracts. Equity-linked contracts include stock index option and future contracts, equity options and swaps. Stock index instruments are contracts to pay or receive cash flows based on the increase or decrease in the underlying index. Commodity products include precious metal options, warrants, forwards, and futures. These instruments are similar to interest rate contracts except that they are based on commodity prices.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

ON-BALANCE SHEET FINANCIAL INSTRUMENTS						
	1995			1994		
	BOOK VALUE	FAIR VALUE	FAIR VALUE OVER BOOK VALUE	BOOK VALUE	FAIR VALUE	FAIR VALUE OVER (UNDER) BOOK VALUE
Assets						
Cash resources	\$ 17,710	\$ 17,710	\$ —	\$ 16,449	\$ 16,449	\$ —
Securities	32,705	32,936	231	27,695	27,423	(272)
Loans	119,577	119,859	282	115,386	114,918	(468)
Customers' liability under acceptances	6,300	6,300	—	6,205	6,205	—
Other assets	3,664	3,664	—	3,178	3,178	—
Liabilities						
Deposits	143,491	144,341	850	135,815	136,031	216
Acceptances	6,300	6,300	—	6,205	6,205	—
Obligations related to assets sold under repurchase agreements	4,090	4,090	—	5,341	5,341	—
Obligations related to securities sold short	7,128	7,128	—	5,569	5,569	—
Other liabilities	10,077	10,077	—	8,083	8,083	—
Subordinated debentures	3,534	3,715	181	3,477	3,509	32

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

Financial instruments valued at carrying value: Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments were assumed to approximate their fair values. These financial instruments include; "Cash resources", "Customers' liability under acceptances", "Other assets", "Acceptances", "Obligations related to assets sold under repurchase agreements", "Obligations related to securities sold short" and "Other liabilities".

Securities: The estimated fair values of securities are provided in Note 3 to the financial statements. These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Loans: For certain variable rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at October 31 to expected maturity amounts (adjusted for prepayments where appropriate).

Deposit liabilities: The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

Subordinated debentures: The fair values of the bank's debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS						
GROSS FAIR VALUE	1995				1994	
	AVERAGE FAIR VALUE FOR THE YEAR ENDED (1)		PERIOD END FAIR VALUE		PERIOD END FAIR VALUE	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Derivative financial instruments held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	\$ 95	\$ 87	\$ 100	\$ 108	\$ 89	\$ 87
Swap contracts	3,480	3,598	4,395	4,778	2,973	3,020
Options purchased	259	—	159	—	295	—
Options written	—	219	—	128	—	238
Total interest rate contracts	3,834	3,904	4,654	5,014	3,357	3,345
Foreign exchange contracts						
Spot and forward contracts	6,106	6,228	6,377	6,566	5,762	5,733
Cross currency swap contracts	362	49	297	52	303	39
Cross currency interest rate swap contracts	655	554	770	422	532	529
Options purchased	544	—	541	—	302	—
Options written	—	488	—	574	—	262
Total foreign exchange contracts	7,667	7,319	7,985	7,614	6,899	6,563
Other	53	54	35	59	53	34
Gross fair values – Trading	\$11,554	\$11,277	\$12,674	\$12,687	\$10,309	\$9,942
Derivative financial instruments held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			\$ 8	\$ 2	\$ 6	\$ 6
Swap contracts			351	293	261	303
Options purchased			4	—	6	—
Total interest rate contracts			363	295	273	309
Foreign exchange contracts						
Spot and forward contracts			114	40	101	63
Cross currency swap contracts			—	11	—	20
Cross currency interest rate swap contracts			225	80	185	80
Options purchased			2	—	—	—
Total foreign exchange contracts			341	131	286	163
Gross fair values – Other than trading			\$704	\$426	\$559	\$472
Total gross fair values			\$13,378	\$13,113	\$10,868	\$10,414
Less impact of master netting agreements:						
With intent to settle net or simultaneously (2)			(188)	(188)		
Without intent to settle net or simultaneously (3)			(3,246)	(3,246)		
Total			\$ 9,944	\$ 9,679		

(1) Average fair value amounts are calculated based on monthly balances.

(2) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(3) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

The following methods and assumptions were used to estimate the fair value of the off-balance sheet financial instruments:

Off-balance sheet financial instruments with contractual amounts representing credit risk: The commitments to extend credit are primarily variable rate and therefore do not expose the bank to interest rate risk.

Derivatives: The fair values of exchange-traded derivatives are based on quoted market prices or dealer quotes. Fair values of non-exchange-traded or over-the-counter (OTC) derivative instruments consist of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received. These amounts are generally calculated as the net present value of contractual cash flows using prevailing market rates for instruments with similar characteristics and maturities.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair value amounts are designed to approximate amounts at which these instruments could be exchanged in a current transaction between willing parties, however, many of the financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not consid-

ered financial instruments such as "premises and equipment". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. As such, the derived fair value estimates cannot be compared to those of other financial institutions. Furthermore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

NOTE 18. COMMITMENTS AND CONTINGENT LIABILITIES

LEASE COMMITMENTS

The bank leases many properties under standard real estate leases which include renewal options and escalation clauses. Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 2000 are in decreasing amounts.

1996	\$175
1997	164
1998	149
1999	136
2000	104

Building rent expense, net of property rental income and restructuring expenses, included in the Consolidated Statement of Income for the year ended October 31, 1995 was \$194 million (1994 - \$182 million; 1993 - \$163 million).

LITIGATION

Various legal proceedings are pending which challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

PLEDGED ASSETS

Securities with a carrying value of \$14.8 billion have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements, obligations related to securities sold short and secured liabilities of subsidiaries other than deposits. In addition, assets with a carrying value of \$946 million have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

NOTE 19. RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of the bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

CONSOLIDATED BALANCE SHEET

There are no material differences, as at October 31, 1995 and 1994, between assets and liabilities as reported in the Consolidated Balance Sheet prepared under Canadian GAAP and those amounts which would be reported under United States GAAP except for the effects of adopting Statement of Financial Accounting Standard (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and Financial Accounting Standard Board (FASB) Interpretation No. 39 "Offsetting of Amounts Related to Certain Contracts".

Under SFAS No. 115, which must be implemented for the year ended October 31, 1995 for United States reporting purposes, investments in equity securities that have readily determinable fair values and all investments in debt securities must be classified according to one of the following three categories:

1. *Held to Maturity*: Securities that the bank has the positive intent and ability to hold to maturity are reported at amortized cost.
2. *Trading Securities*: Securities that are bought and held principally for resale in the near term are reported at fair value, with unrealized gains and losses included in earnings.
3. *Available for Sale*: Securities not classified as either held to maturity or trading are classified as available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

NOTE 19. RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED)

Under Canadian GAAP, the bank classifies securities held as either investment account or trading account securities. Investment account securities are carried at amortized cost and trading account securities are recorded at estimated current market value. For United States reporting purposes, primarily all investment account securities would be classified as "*Available for Sale*" and reported at estimated fair value.

Had the bank reported its investment account securities in accordance with United States GAAP as at October 31, 1995, securities would have increased by \$219 million and deferred income taxes (included in "Other assets") would have decreased by \$93 million. The after-tax net unrealized gain of \$126 million would have been reported as a separate component of shareholders' equity. Gross realized gains and gross realized losses from disposal of available for sale securities were \$109 million and \$92 million, respectively, for the year ended October 31, 1995.

Under FASB Interpretation No. 39, which must be implemented for the year ended October 31, 1995 for United States reporting purposes, assets and liabilities should not be offset on the balance sheet unless specific criteria are met. The most significant impact of this requirement would be that gross unrealized gains and losses on derivatives would be reported as assets and liabilities respectively. However, unrealized gains and losses on contracts with the same counterparty would be permitted to be netted if the contracts are executed under legally enforceable master netting agreements. The bank presently records unrealized gains and losses on derivatives on a net basis on the balance sheet.

Had the bank reported its unrealized gains and losses on derivative contracts in accordance with United States GAAP as at October 31, 1995, both assets and liabilities would increase by \$9.7 billion.

CONSOLIDATED STATEMENT OF INCOME

There are no differences between Canadian and United States GAAP which would have had a material impact on the Consolidated Statement of Income.

Revenue and expenses reported in the Consolidated Statement of Income are generally classified in the same manner as under United States GAAP except that gains and losses on investment account and trading account securities and write-downs of investment account securities would be reported in "Other income" under United States GAAP. These amounts are included in "Interest income" under Canadian GAAP.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

There are no material differences between the Consolidated Statement of Shareholders' Equity as reported under Canadian GAAP for the years ended October 31, 1995, 1994 and 1993 and as reported under United States GAAP, except for the after-tax net unrealized gain on investment account securities, in accordance with SFAS No. 115 as described above.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

There are no material differences between the Consolidated Statement of Changes in Financial Position as reported under Canadian GAAP for the years ended October 31, 1995, 1994 and 1993 and as would be reported under United States GAAP, except for the disclosure of supplementary information relating to interest paid in 1995 of \$7.3 billion (1994 – \$6.4 billion; 1993 – \$4.9 billion) and cash income taxes paid of \$265 million in 1995 (1994 – \$407 million; 1993 – \$567 million).

RECENT UNITED STATES GENERALLY ACCEPTED ACCOUNTING STANDARDS NOT YET ADOPTED BY THE BANK

Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions"

Under this new standard, which must be implemented in the year ending October 31, 1996 for United States reporting purposes, the bank will be required to accrue the costs of post-retirement benefits other than pensions, over the working lives of employees in a similar manner to pension costs. These benefits are primarily comprised of life insurance, dental care and supplementary health care coverage (in excess of coverage provided under the Canadian health insurance system). The bank currently expenses the costs of postretirement benefits other than pensions, at the time that the expenditures are incurred and, as indicated in Note 14, the amount charged to income in 1995 was \$8 million (1994 – \$7 million; 1993 – \$7 million). The impact of adopting the new standard will be determined in 1996, consistent with the required date of implementation.

Statement of Financial Accounting Standards No. 114 and 118 "Accounting by Creditors for Impairment of a Loan"

These standards are similar to the Impaired Loans accounting standard recently issued by the Canadian Institute of Chartered Accountants, the detail of which is described in Note 4. While similar in content and required date of implementation, the initial impact of adopting the United States reporting standard must be charged to earnings in the year ending October 31, 1996.

CONSOLIDATED BALANCE SHEET										
<i>As at October 31 (\$ millions)</i>	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Assets										
Cash resources	\$ 17,710	\$ 16,449	\$ 10,874	\$ 10,938	\$ 8,820	\$ 8,763	\$ 8,187	\$ 10,093	\$ 13,810	\$14,908
Securities	32,705	27,695	24,011	16,146	13,436	9,449	7,989	8,872	8,586	10,244
Loans										
Residential mortgages	45,088	44,086	43,738	32,607	29,103	25,733	22,530	19,502	16,184	12,510
Consumer instalment, credit card and other personal loans	20,268	19,758	19,508	17,928	17,290	16,826	15,612	14,187	11,744	10,120
Business and government loans	49,630	46,283	47,919	48,995	51,351	50,135	45,097	44,092	41,365	43,304
Assets purchased under reverse repurchase agreements	4,591	5,259	5,304	607	600	—	—	—	—	—
	119,577	115,386	116,469	100,137	98,344	92,694	83,239	77,781	69,293	65,934
Customers' liability under acceptances	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438
Premises and equipment	1,870	1,975	2,057	1,914	1,921	1,800	1,509	1,335	1,253	1,168
Other assets	5,490	5,369	5,228	3,421	2,621	2,863	3,035	2,434	2,002	1,915
	\$183,652	\$173,079	\$164,941	\$138,293	\$132,352	\$125,938	\$114,660	\$110,054	\$102,170	\$99,607
Liabilities and shareholders' equity										
Deposits										
Consumers	\$ 89,929	\$ 85,214	\$ 84,696	\$ 67,648	\$ 64,332	\$ 60,577	\$ 53,851	\$ 46,701	\$ 42,530	\$41,031
Businesses and governments	39,900	36,422	33,781	30,245	29,740	27,335	25,242	27,924	28,021	26,003
Banks	13,662	14,179	11,922	14,329	10,950	11,256	10,093	12,613	15,260	17,219
	143,491	135,815	130,399	112,222	105,022	99,168	89,186	87,238	85,811	84,253
Acceptances	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438
Obligations related to assets sold under repurchase agreements	4,090	5,341	2,533	787	641	29	299	188	49	48
Obligations related to securities sold short	7,128	5,569	5,362	3,628	2,650	1,523	989	620	55	52
Other liabilities	10,077	8,083	8,973	5,286	5,991	6,096	5,584	5,382	3,144	3,086
Subordinated debentures	3,534	3,477	3,442	3,127	3,076	2,299	2,118	2,000	1,521	2,068
	174,620	164,490	157,011	130,787	124,590	119,484	108,877	104,967	97,806	94,945
Shareholders' equity										
Capital stock										
Preferred	1,990	2,266	2,248	1,594	1,661	1,146	1,151	954	1,012	1,025
Common	2,910	2,910	2,910	2,910	2,726	2,450	2,309	1,961	1,545	1,193
Retained earnings	4,132	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807	2,444
	9,032	8,589	7,930	7,506	7,762	6,454	5,783	5,087	4,364	4,662
	\$183,652	\$173,079	\$164,941	\$138,293	\$132,352	\$125,938	\$114,660	\$110,054	\$102,170	\$99,607

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31
(\$ millions)

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Interest income										
Loans	\$10,149	\$ 8,889	\$8,104	\$ 8,891	\$10,664	\$11,251	\$10,047	\$7,915	\$6,769	\$7,061
Securities	1,750	1,369	1,245	946	927	1,057	971	706	785	856
Deposits with banks	817	479	321	421	613	666	676	704	881	1,094
	12,716	10,737	9,670	10,258	12,204	12,974	11,694	9,325	8,435	9,011
Interest expense										
Deposits	7,370	5,521	4,923	5,832	7,924	9,092	7,772	5,871	5,304	5,976
Subordinated debentures	320	268	245	257	271	220	206	142	136	172
Other	359	280	109	79	59	68	91	31	42	38
	8,049	6,069	5,277	6,168	8,254	9,380	8,069	6,044	5,482	6,186
Net interest income	4,667	4,668	4,393	4,090	3,950	3,594	3,625	3,281	2,953	2,825
Provision for credit losses	580	820	1,750	2,050	605	420	1,380	750	900	975
	4,087	3,848	2,643	2,040	3,345	3,174	2,245	2,531	2,053	1,850
Other income	2,590	2,652	2,070	1,911	1,737	1,644	1,533	1,267	1,061	831
	6,677	6,500	4,713	3,951	5,082	4,818	3,778	3,798	3,114	2,681
Non-interest expenses										
Human resources	2,563	2,675	2,310	2,160	2,072	1,889	1,706	1,467	1,327	1,254
Occupancy	453	478	418	400	364	307	276	259	227	209
Equipment	506	460	396	377	335	287	238	204	181	168
Communications	461	450	377	372	372	362	321	266	227	213
Restructuring	—	—	410	130	—	—	—	—	—	—
Other	654	576	478	449	445	444	389	351	364	328
	4,637	4,639	4,389	3,888	3,588	3,289	2,930	2,547	2,326	2,172
Net income before income taxes	2,040	1,861	324	63	1,494	1,529	848	1,251	788	509
Income taxes	755	655	(5)	(65)	495	555	305	530	273	54
Net income before non-controlling interest	1,285	1,206	329	128	999	974	543	721	515	455
Non-controlling interest in net income of subsidiaries	23	37	29	21	16	9	14	9	3	3
Net income before special provision for losses	1,262	1,169	300	107	983	965	529	712	512	452
Special provision for losses	—	—	—	—	—	—	—	—	(800)	—
Net income (loss)	\$ 1,262	\$ 1,169	\$ 300	\$ 107	\$ 983	\$ 965	\$ 529	\$ 712	\$ (288)	\$ 452

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31
(\$ millions)

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Preferred shares										
Balance at beginning of year	\$2,266	\$2,248	\$1,594	\$1,661	\$1,146	\$1,151	\$ 954	\$1,012	\$1,025	\$ 877
Issue of preferred shares	—	—	612	—	526	—	400	—	—	150
Preferred shares converted	—	—	—	—	—	—	(187)	(44)	—	—
Preferred shares redeemed and purchased for cancellation	(272)	—	—	(102)	(5)	(4)	(11)	(5)	(5)	(4)
Translation adjustment on shares issued in foreign currency	(4)	18	42	35	(6)	(1)	(5)	(9)	(8)	2
Balance at end of year	\$1,990	\$2,266	\$2,248	\$1,594	\$1,661	\$1,146	\$1,151	\$ 954	\$1,012	\$1,025
Common shares										
Balance at beginning of year	\$2,910	\$2,910	\$2,910	\$2,726	\$2,450	\$2,309	\$1,961	\$1,545	\$1,193	\$ 962
Issue of common shares	—	—	—	184	276	141	348	416	352	231
Balance at end of year	\$2,910	\$2,910	\$2,910	\$2,910	\$2,726	\$2,450	\$2,309	\$1,961	\$1,545	\$1,193
Retained earnings										
Balance at beginning of year	\$3,413	\$2,772	\$3,002	\$3,375	\$2,858	\$2,323	\$2,172	\$1,807	\$2,444	\$2,329
Net income (loss)	1,262	1,169	300	107	983	965	529	712	(288)	452
Dividends — preferred	(164)	(168)	(154)	(123)	(103)	(96)	(65)	(80)	(79)	(76)
— common	(371)	(364)	(364)	(361)	(352)	(337)	(313)	(266)	(236)	(205)
Income taxes	—	—	—	—	—	—	—	—	(29)	(35)
Share issue costs	—	—	(11)	—	(8)	—	(6)	—	—	(3)
Unrealized foreign currency translation gains and losses	(8)	4	(1)	4	(3)	3	6	(1)	(5)	(18)
Balance at end of year	\$4,132	\$3,413	\$2,772	\$3,002	\$3,375	\$2,858	\$2,323	\$2,172	\$1,807	\$2,444
Shareholders' equity at end of year	\$9,032	\$8,589	\$7,930	\$7,506	\$7,762	\$6,454	\$5,783	\$5,087	\$4,364	\$4,662

DEPOSITS GREATER THAN \$100,000

As at October 31, 1995 (\$ millions)	TOTAL	LESS THAN \$100,000	GREATER THAN \$100,000	MATURITY PROFILE OF DEPOSITS GREATER THAN \$100,000			
				WITHIN 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	AFTER 12 MONTHS
Domestic							
Consumers	\$ 84,660	\$65,983	\$18,677	\$10,241	\$1,707	\$4,408	\$2,321
Businesses and governments	27,700	4,713	22,987	21,768	460	414	345
Banks	2,418	—	2,418	2,418	—	—	—
	114,778	70,696	44,082	34,427	2,167	4,822	2,666
International							
Consumers	5,269	806	4,463	4,227	165	62	9
Businesses and governments	12,200	113	12,087	8,078	2,970	358	681
Banks	11,244	1,228	10,016	7,589	1,806	378	243
	28,713	2,147	26,566	19,894	4,941	798	933
Total	\$143,491	\$72,843	\$70,648	\$54,321	\$7,108	\$5,620	\$3,599

QUARTERLY HIGHLIGHTS

(\$ millions, except per share amounts; taxable equivalent basis)	1995				1994			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Domestic								
Net interest income	\$1,025	\$1,014	\$969	\$968	\$1,048	\$1,001	\$980	\$951
Provision for credit losses	(90)	(111)	(126)	(157)	(195)	(196)	(197)	(198)
Other income	516	534	465	479	494	505	559	557
Non-interest expenses	(1,073)	(1,028)	(940)	(941)	(1,001)	(1,002)	(990)	(1,022)
Income taxes	(172)	(183)	(171)	(154)	(149)	(126)	(148)	(118)
Non-controlling interest	(6)	(7)	(5)	(3)	(7)	(7)	(12)	(9)
Net income	\$200	\$219	\$192	\$192	\$190	\$175	\$192	\$161
Average assets (\$ billions)	\$140.9	\$139.0	\$136.8	\$137.8	\$135.0	\$134.3	\$134.0	\$133.5
International								
Net interest income	\$220	\$172	\$174	\$165	\$174	\$170	\$150	\$243
Provision for credit losses	(50)	(29)	(14)	(3)	(10)	(9)	(8)	(7)
Other income	141	132	161	162	160	141	107	129
Non-interest expenses	(166)	(153)	(166)	(170)	(179)	(151)	(144)	(150)
Income taxes	(25)	(21)	(43)	(26)	(33)	(31)	(23)	(76)
Non-controlling interest	—	(1)	—	(1)	—	(1)	(1)	—
Net income	\$120	\$100	\$112	\$127	\$112	\$119	\$81	\$139
Average assets (\$ billions)	\$34.7	\$34.1	\$34.0	\$34.9	\$33.7	\$32.8	\$32.7	\$31.1
Total Bank								
Net interest income	\$1,245	\$1,186	\$1,143	\$1,133	\$1,222	\$1,171	\$1,130	\$1,194
Provision for credit losses	(140)	(140)	(140)	(160)	(205)	(205)	(205)	(205)
Other income	657	666	626	641	654	646	666	686
Non-interest expenses	(1,239)	(1,181)	(1,106)	(1,111)	(1,180)	(1,153)	(1,134)	(1,172)
Income taxes	(197)	(204)	(214)	(180)	(182)	(157)	(171)	(194)
Non-controlling interest	(6)	(8)	(5)	(4)	(7)	(8)	(13)	(9)
Net income	\$320	\$319	\$304	\$319	\$302	\$294	\$273	\$300
Average assets (\$ billions)	\$175.6	\$173.1	\$170.8	\$172.7	\$168.7	\$167.1	\$166.7	\$164.6
Earnings per common share	\$0.90	\$0.88	\$0.83	\$0.88	\$0.83	\$0.80	\$0.74	\$0.82
Dividends per common share	\$0.31	\$0.29	\$0.29	\$0.29	\$0.29	\$0.29	\$0.29	\$0.29
Return on assets	0.72%	0.73%	0.73%	0.73%	0.71%	0.70%	0.67%	0.72%
Return on equity	16.2%	16.4%	16.3%	17.2%	16.6%	16.5%	16.1%	17.9%
Common share price — High	\$31.38	\$31.25	\$30.38	\$29.88	\$29.63	\$28.63	\$31.88	\$31.75
Low	28.13	28.88	27.25	25.88	27.38	25.13	26.13	26.13
Close	30.13	29.25	29.88	27.50	28.38	28.00	27.38	31.50

CONSOLIDATED REVENUES AND EXPENSES AS A PERCENTAGE OF AVERAGE ASSETS										
(Taxable equivalent basis)	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Average assets (\$ millions)	\$173,100	\$166,700	\$142,500	\$136,200	\$130,100	\$121,700	\$112,700	\$104,300	\$100,400	\$97,700
Net interest income (1)	2.72%	2.83%	3.13%	3.05%	3.09%	3.03%	3.30%	3.22%	3.09%	3.07%
Provision for credit losses	(.34)	(.49)	(1.23)	(1.51)	(.47)	(.35)	(1.22)	(.72)	(.90)	(1.00)
Other income	2.38	2.34	1.90	1.54	2.62	2.68	2.08	2.50	2.19	2.07
Non-interest expenses	3.88	3.93	3.35	2.94	3.96	4.03	3.44	3.72	3.25	2.92
Income taxes (1)	(2.68)	(2.78)	(3.08)	(2.85)	(2.76)	(2.70)	(2.61)	(2.44)	(2.32)	(2.22)
Non-controlling interest in net income of subsidiaries	1.20	1.15	.27	.09	1.20	1.33	.83	1.28	.93	.70
Return on assets	(.46)	(.43)	(.04)	—	(.44)	(.53)	(.35)	(.59)	(.42)	(.23)
Return on assets after preferred dividends	(.01)	(.02)	(.02)	(.01)	—	(.01)	(.01)	(.01)	—	(.01)
Common share information (2)	.73%	.70%	.21%	.08%	.76%	.79%	.47%	.68%	.51%	.46%
Shares outstanding (thousands) (3)	.63%	.60%	.10%	(.01)%	.68%	.71%	.41%	.61%	.43%	.38%
Earnings (loss) per share (4)	314,155	314,155	314,155	314,155	306,460	293,267	286,674	265,300	236,010	213,044
Dividends per share	\$ 3.49	\$ 3.19	\$ 0.46	\$ (0.05)	\$ 2.92	\$ 3.00	\$ 1.64	\$ 2.52	\$ 1.89	\$ 1.84
Common share price (5) High	1.18	1.16	1.16	1.16	1.16	1.16	1.10	1.04	1.01	1.00
(5) Low	31.38	31.88	28.88	29.00	27.50	25.69	24.38	18.25	19.44	17.63
(5) Close	25.88	25.13	22.00	21.50	20.50	19.75	16.88	13.06	12.81	13.75
Book value (6)	30.13	28.38	27.25	24.13	27.00	20.75	24.25	18.00	13.88	16.63
Price/earnings multiple (7)	22.42	20.13	18.09	18.82	19.91	18.10	16.16	15.58	14.20	17.07
Dividend yield (8)	8.2	8.9	—	—	8.2	7.6	12.5	6.2	8.5	8.5
Dividend payout ratio (9)	4.1%	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%	6.6%	6.3%	6.4%
Return on equity (10)	33.8%	36.4%	—	—	40.0%	38.8%	67.4%	42.1%	54.5%	54.5%
Capital ratios (\$ millions) (11)	16.6%	16.8%	2.4%	(0.3)%	15.5%	17.5%	10.1%	17.2%	11.5%	10.9%
Tier 1 capital	\$ 8,421	\$ 7,660	\$ 6,910	\$ 6,740	\$ 6,938	\$ 5,712	\$ 5,096	\$ 4,232		
Tier 2 capital	3,492	3,865	4,031	3,743	3,748	2,813	2,538	2,383		
Total capital	\$11,913	\$11,525	\$10,941	\$10,483	\$10,686	\$8,525	\$7,634	\$6,615		
Total risk-adjusted assets	\$121,350	\$120,158	\$117,043	\$114,298	\$113,975	\$115,035	\$106,218	\$99,801		
Tier 1 capital to risk-adjusted assets	6.9%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%	4.2%		
Tier 2 capital to risk-adjusted assets	2.9	3.2	3.4	3.3	3.3	2.4	2.4	2.4		
Total capital to risk-adjusted assets	9.8%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%	6.6%		
Other information										
Number of employees (12)	49,011	49,208	52,745	49,628	50,547	50,106	47,989	46,096	42,839	43,229
Automated banking machines	4,079	3,948	3,981	3,828	3,651	3,142	2,334	1,632	1,337	1,170
Service delivery units										
Domestic	1,577	1,596	1,731	1,661	1,645	1,617	1,560	1,513	1,467	1,442
International (13)	105	97	95	83	102	48	47	47	50	54
Total	1,682	1,693	1,826	1,744	1,747	1,665	1,607	1,560	1,517	1,496

(1) Net interest income and income taxes are presented on a taxable equivalent basis.

(2) Common shares were split on a 2 for 1 basis in February 1990 and all related data has been restated accordingly.

(3) At October 31.

(4) Income and earnings per share figures for 1987 are stated before the special provision for losses on country lending. Adjusting these figures for the special provision results in a loss of \$1.60 per share.

(5) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.

(6) Common shareholders' equity divided by common shares outstanding at October 31.

(7) Average of high and low common share price divided by earnings per share. The multiples for 1993 and 1992 are not meaningful.

(8) Dividends per common share divided by the average of high and low share price.

(9) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.

(10) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.

(11) Commencing October 31, 1988, the bank has calculated its capital ratios in accordance with the capital adequacy guideline of the Superintendent of Financial Institutions Canada.

(12) On a full-time equivalent basis.

(13) International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

NAME	PRINCIPAL OFFICE ADDRESS*	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK**	PERCENTAGE OF VOTING SHARES OWNED BY THE BANK
ROYAL BANK MORTGAGE CORPORATION***	Montreal, Canada	\$ 854	100%
ROYAL TRUST CORPORATION OF CANADA***	Toronto, Canada	746	100
THE ROYAL TRUST COMPANY	Montreal, Canada	147	100
RBC INSURANCE HOLDINGS INC.	Brampton, Canada	51	100
VOYAGEUR INSURANCE COMPANY	Brampton, Canada		100
ROYAL BANK EXPORT FINANCE CO. LTD.	Toronto, Canada	8	100
RT INVESTMENT MANAGEMENT HOLDINGS INC.	Toronto, Canada	20	100
ROYAL BANK INVESTMENT MANAGEMENT INC.	Toronto, Canada		100
RT CAPITAL MANAGEMENT INC.***	Toronto, Canada		100
ROYAL MUTUAL FUNDS INC.	Toronto, Canada		100
ROYAL BANK ACTION DIRECT INC.	Richmond Hill, Canada	5	100
ROYAL BANK HOLDING INC.	Toronto, Canada	7,203	100
RBC DOMINION SECURITIES LIMITED	Toronto, Canada		73
RBC DOMINION SECURITIES INC.	Toronto, Canada		73
RBC DOMINION SECURITIES CORPORATION	New York, U.S.A.		73
DS MARCIL PARTNERSHIP	Toronto, Canada		73
ROYAL BANK REALTY INC.	Montreal, Canada		100
ROYAL BANK CAPITAL CORPORATION	Toronto, Canada		100
R.B.C. HOLDINGS (BAHAMAS) LIMITED	Nassau, Bahamas		100
ROYAL BANK OF CANADA TRUST COMPANY (BAHAMAS) LIMITED	Nassau, Bahamas		100
MULTINATIONAL SERVICES (CAYMAN) LIMITED***	George Town, Grand Cayman		100
FINANCE CORPORATION OF BAHAMAS LIMITED	Nassau, Bahamas		75
ROYAL BANK OF CANADA (ASIA) LIMITED	Singapore		100
INVESTMENT HOLDINGS (CAYMAN) LTD.	George Town, Grand Cayman		100
ROYAL BANK OF CANADA (BARBADOS) LIMITED	Bridgetown, Barbados		100
ROYAL BANK OF CANADA REINSURANCE (CAYMAN) LIMITED	George Town, Grand Cayman	337	100
ROYAL BANK OF CANADA INSURANCE COMPANY LTD.	Bridgetown, Barbados		100
RBC HOLDINGS (USA) INC.	New York, U.S.A.	265	100
ROYAL BANK OF CANADA FINANCIAL CORPORATION	Bridgetown, Barbados	4	100
ATLANTIS HOLDINGS LIMITED	Bridgetown, Barbados	297	100
RBC FINANCE B.V.	Amsterdam, Netherlands	843	100
ROYAL BANK OF CANADA (SUISSE)	Geneva, Switzerland		100
ROYAL BANK OF CANADA AG	Frankfurt, Germany		100
RBC HOLDINGS (GUERNSEY) LIMITED	Guernsey, Channel Islands		100
ROYAL BANK OF CANADA (CHANNEL ISLANDS) LIMITED	Guernsey, Channel Islands		100
ROYAL BANK OF CANADA (JERSEY) LIMITED	Jersey, Channel Islands		100
ROYAL BANK OF CANADA HOLDINGS (U.K.) LIMITED	London, England		100
CHANCELLOR INVESTMENTS LIMITED	London, England		100
ROYAL BANK OF CANADA EUROPE LIMITED	London, England		100
ROYAL BANK OF CANADA (IOM) LIMITED	Isle of Man		100
RBC INVESTMENT MANAGEMENT (ASIA) LIMITED	Hong Kong	27	100
ROYAL TRUST BANK (ASIA) LIMITED***	Singapore		100

* The subsidiaries are incorporated under the laws of the country in which the principal office is situated, except for RT Investment Management Holdings Inc. incorporated under the laws of Ontario, and RBC Holdings (USA) Inc. incorporated under the laws of Delaware.

** The carrying value (in millions of dollars) of voting shares is stated at the bank's equity in such investments.

*** The above-mentioned five subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.

ALLOWANCE FOR CREDIT LOSSES

The amount deemed adequate by management to absorb anticipated credit-related losses in the portfolio of loans, acceptances, guarantees, letters of credit and deposits with other banks and derivatives. The allowance is increased by specific provisions, the country risk provision and general provisions. It is reduced by write-offs net of recoveries and by losses realized on sales and exchanges of LDC loans.

ASSETS UNDER ADMINISTRATION AND UNDER MANAGEMENT

Assets administered and/or managed by a financial institution which are beneficially owned by clients and are therefore not reported on the balance sheet of the financial institution. Services provided in respect of assets under administration are of an administrative nature including safekeeping, collection of investment income, settlement of purchase and sale transactions, and record-keeping. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. Assets under management may also be administered by the financial institution.

BANKERS' ACCEPTANCE

A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

BASIS POINT

One one-hundredth of a percentage point.

BRADY BONDS

Securities issued under the terms of the so-called "Brady Plan", named after former U.S. Treasury Secretary Nicholas Brady. Brady bonds, which may be secured in whole or in part by U.S. Treasury bonds, are issued by less developed countries in exchange for loans payable to commercial banks.

CAPITAL RATIOS

The percentage of risk-adjusted assets supported by capital, as defined by

the Superintendent of Financial Institutions Canada under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS).

COMMITMENTS TO EXTEND CREDIT

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

CROSS CURRENCY AND INTEREST RATE SWAPS

Derivatives which oblige two parties to exchange currencies and/or the related interest flows (e.g. fixed rate for floating rate) on a specified notional amount for a specified period.

DERIVATIVES

A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification, or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include interest rate and cross currency swaps, foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

DOCUMENTARY AND COMMERCIAL LETTERS OF CREDIT

Written undertakings by a bank on behalf of its customer (typically an importer), authorizing a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

FOREIGN CURRENCY AND INTEREST RATE FUTURES

A type of derivative which creates an obligation to buy or sell a foreign currency or a financial instrument on a future date at a specified price established on a commodity exchange.

FOREIGN CURRENCY AND INTEREST RATE OPTIONS

A type of derivative in which the writer grants the purchaser the right, but not the obligation; either to buy (call option) or sell (put option) at or by a set date, a set amount of foreign currency or a financial instrument at a set price.

FOREIGN EXCHANGE SPOT AND FORWARD CONTRACTS

A *Foreign Exchange Forward Contract*, which is a type of derivative, is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A *Foreign Exchange Spot Contract* is a commitment to buy or sell a fixed amount of foreign currency for delivery within two business days of the contract date.

FORWARD RATE AGREEMENT (FRA)

A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. When used as a hedge, an FRA protects against future movements in market interest rates.

GUARANTEES AND STANDBY LETTERS OF CREDIT

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

HEDGE

A risk management technique used to insulate financial results from market, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

LONDON INTER-BANK OFFERED RATE (LIBOR), BID RATE (LIBID) AND MEAN RATE (LIMEAN)

The interest rates at which banks offer to lend funds (LIBOR) and purchase funds (LIBID) in the international inter-bank market. The average of the LIBOR and LIBID is referred to as the LIMEAN.

MARK-TO-MARKET

Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

NET INTEREST INCOME

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures.

NON-ACCRUAL LOAN

A loan placed on a cash basis (i.e. interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility of principal or interest. Loans, other than credit card balances, are automatically placed on a cash basis when a payment is 90 days past due, unless the loan is well secured and in the process of collection. All loans are classified as non-accrual when a payment is 180 days in arrears.

NOTIONAL AMOUNT

The contract amount used as a reference point to calculate payments for derivatives.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

A variety of products offered to customers which fall into two broad categories: (i) credit-related arrangements which provide customers with liquidity protection, and (ii) derivatives, which are defined on the previous page.

PREPAID PENSION COST

The cumulative excess of amounts contributed to a pension fund over the amounts recorded as pension expense.

PROVISION FOR CREDIT LOSSES

A charge to income which is added to the allowance for credit losses. *Specific provisions* are established to reduce the book value of specific assets (primarily loans) to estimated realizable values.

A *country risk provision* is established for possible losses on aggregate loans to a group of 52 less developed countries designated by the Superintendent of Financial Institutions Canada. *General provisions* are established for anticipated losses on aggregate exposures including those in particular industries or geographic regions (excluding LDCs) where credit losses cannot yet be determined on an individual facility basis.

RETURN ON ASSETS (ROA)

Net income expressed as a percentage of average total assets. Used, along with ROE, as a measure of profitability and as a basis for intra-industry performance comparison.

RETURN ON EQUITY (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

RISK

Banking involves a number of different risks. *Credit risk* refers to the possibility that counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments and cause the bank to suffer a loss. *Liquidity risk* refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions. *Market risk* is the risk to future earnings that results from changes in interest rates, foreign exchange rates, equity and commodity prices and the volatility of these rates and prices. Interest rate risk refers to possible losses resulting from changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest income earned on a fixed yield mortgage portfolio. Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment. Interest rate, foreign exchange and other market risks are hedged as far as

is practical using a variety of financial instruments. *Operational risk* is the potential for loss caused by a breakdown in procedures in transaction processing, risk management and reporting.

RISK-ADJUSTED ASSETS

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

SECURITIES LENDING

Transactions in which a bank acts as an agent for the owner of a security, who agrees to lend the security under the terms of a pre-arranged contract to a borrower for a fee. The borrower must fully collateralize the security loan at all times. There are two types of securities lending arrangements, lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently.

SECURITIES SOLD SHORT

Transactions in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

TAXABLE EQUIVALENT ADJUSTMENT

An addition to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

JOHN E. CLEGHORN (1987)
Toronto
Chairman and Chief Executive Officer
Royal Bank of Canada

THEODORE M. ALLEN (1992)
Winnipeg
President and Chairman of the Board
United Grain Growers Limited

SIR JAMES BALL (1990)
London, England
Professor of Economics
London Business School

JACQUES BOUGIE, O.C. (1991)
Montreal
President and Chief Executive Officer
Alcan Aluminium Limited

ROBERT M. CHIPMAN (1986)
Winnipeg
Chairman
The McGill-Stephenson Company
Limited

RONALD L. CLIFF, C.M., F.C.A. (1987)
Vancouver
Chairman
BC Gas Inc.

GEORGE A. COHON, O.C. (1988)
Toronto
Senior Chairman and Chairman of the
Executive Committee
McDonald's Restaurants of Canada
Limited

G.N. (MEL) COOPER, C.M., O.B.C. (1992)
Victoria
President
Seacoast Communications Group Inc.

* PIERRE DES MARAIS II (1990)
Montreal
President and Chief Executive Officer
UniMédia Inc.

MITZI S. DOBRIN, C.M. (1976)
Westmount
Chairman and Chief Executive Officer
DBRN Holdings Ltd.

JOHN R. EVANS, C.C., M.D. (1984)
Toronto
Chairman
Torstar Corporation

JOHN T. FERGUSON (1990)
Edmonton
President and Chief Executive Officer
Princeton Developments Ltd.

L. YVES FORTIER, C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

THE HON. PAULE GAUTHIER,
P.C., O.C., Q.C. (1991)
Quebec City
Partner
Desjardins Ducharme Stein Monast

ARDEN R. HAYNES, O.C. (1985)
Don Mills
Company Director

CHARLES H. KNIGHT (1983)
Regina
Chief Executive Officer
Denro Holdings Ltd.

THE HON. E. PETER LOUGHEED,
P.C., C.C., Q.C. (1986)
Calgary
Senior Partner
Bennett Jones Verchere

* CLIFFORD S. MALONE (1975)
Toronto
Vice-Chairman
United Corporations Limited

G. WALLACE F. MCCAIN (1986)
Toronto
Chairman
Maple Leaf Foods Inc.

DAWN R. McKEAG (1978)
Winnipeg
President
Walford Investments Ltd.

J. EDWARD NEWALL, O.C. (1984)
Calgary
Vice-Chairman and
Chief Executive Officer
NOVA Corporation

ROBERT B. PETERSON (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

RALPH A. PFEIFFER, JR. (1984)
Greenwich, CT
Retired Chairman and
Chief Executive Officer
IBM World Trade Corporation

KENNETH C. ROWE, F.C.I.S. (1985)
Halifax
Chairman, President and
Chief Executive Officer
I.M.P. Group International Inc.

GUY SAINT-PIERRE, O.C. (1990)
Montreal
President and Chief Executive Officer
SNC-Lavalin Group Inc.

ROBERT T. STEWART (1988)
Vancouver
Company Director

ALLAN R. TAYLOR, O.C. (1983)
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

JOHN A. TORY, Q.C. (1971)
Toronto
Deputy Chairman
The Thomson Corporation

SHEELAGH D. WHITTAKER (1993)
Toronto
President
EDS Canada

VICTOR L. YOUNG (1991)
St. John's, Newfoundland
Chairman and Chief Executive Officer
Fishery Products International Limited

* Not standing for re-election
on March 6, 1996

The date appearing after the name of each
director indicates the year in which the
individual became a director. The term
of office of each director will expire at
the next annual meeting, scheduled for
March 6, 1996

Since November 1, 1990, the directors have
held the principal occupations described
above, except Mr. John E. Cleghorn who,
prior to January 26, 1995 was President
and Chief Executive Officer and prior
to November 1, 1994, was President and
Chief Operating Officer of the bank,
Dr. John R. Evans who, prior to
December 1993, was Chairman of Allelix
Biopharmaceuticals Inc., Mr. L. Yves
Fortier who, prior to September 1992, was
Canada's Ambassador and Permanent
Representative to the United Nations,
Mr. Arden R. Haynes who, prior to
September 1992, was Chairman and Chief
Executive Officer of Imperial Oil Limited,
Mr. G. Wallace F. McCain who, prior to
April 1995, was President of McCain
Foods Limited, Mr. J. Edward Newall
who, prior to September 1991, was
Chairman and Chief Executive Officer
of Du Pont Canada Inc., Mr. Robert B.
Peterson who, prior to September 1992,
occupied various senior positions with
Imperial Oil Limited, Mr. Robert T.
Stewart who, prior to January 1994,
was Chairman, President and Chief
Executive Officer of Scott Paper Limited,
Mr. Allan R. Taylor who, prior to
January 26, 1995, was Chairman and prior
to November 1, 1994 was Chairman and
Chief Executive Officer of the bank
and Ms. Sheelagh D. Whittaker who,
prior to November 1993, was President
and Chief Executive Officer of Canadian
Satellite Communications Inc.

To the knowledge of the bank, the direc-
tors and senior officers, as a group, benefi-
cially own or exercise control or direction
over less than 1% of the common shares
of the bank. None of the directors or senior
officers of the bank holds shares of its sub-
sidiaries except where required for quali-
fication as a director of a subsidiary and
except with respect to RBC Dominion
Securities Limited. To the knowledge of
the bank, the senior officers of the bank,
as a group, beneficially own or exercise
control or direction over, less than 1.6%
of the outstanding Class C shares or 0.4%
of the votes attaching to all outstanding
voting securities of RBC Dominion
Securities Limited.

The bank is required to have an audit
committee (see page 91).

Corporate governance at Royal Bank is a system of interrelated principles, structures and processes designed to enable the Board of Directors to carry out its responsibilities in a highly effective manner and to assist the board in evaluating and improving its performance in doing so.

The Board of Directors of Royal Bank continues to be proactive in adopting effective corporate governance processes and industry-leading standards. In 1980 and again in 1993, special board committees were set up to undertake full reviews of the role and functions of the Board of Directors and the board's corporate governance practices. The recommendations of these committees have become a solid base for the development and ongoing improvement of Royal Bank's corporate governance system.

Royal Bank's corporate governance system is discussed below with reference to the *Bank Act* and the Guidelines for Improved Corporate Governance of the Toronto and Montreal stock exchanges (the "Stock Exchange Guidelines").

MANDATE OF THE BOARD

The mandate of the Board of Directors is to supervise the management of the business and affairs of the bank. The main areas of responsibilities under this mandate include enhancing shareholder value, reviewing and approving the strategic plan and priorities, operating plan, capital budget and financial goals of Royal Bank group, senior management planning and succession, and the dividend policy of Royal Bank. In addition, the *Bank Act* prescribes specific duties, which include establishing investment and lending policies, standards and procedures, and establishing certain committees of the Board of Directors. Certain of the duties of the Board of Directors must be performed by the board itself, and certain of its other duties have been delegated to committees of the board. The mandates and memberships of the board committees are discussed below.

BOARD MEETINGS AND PROCEDURES

There are ten regularly scheduled meetings of the Board of Directors held each year. As well, special meetings of the board are held as required. The directors also periodically attend special seminars and hold off-site sessions to discuss strategic issues for Royal Bank group.

The Corporate Governance Committee, in concert with the Chairman of each board committee and the Chairman and Chief Executive Officer, develops a forward agenda for board meetings and makes arrangements with senior management for special presentations on matters of interest to the Board of Directors. The Chairman of each board committee normally reports to the full Board after each meeting of the committee. Prior to each board meeting, the directors receive a comprehensive information package including the agenda, minutes of the previous meeting, and presentations and other materials relating to items on the agenda. The board utilizes a consent agenda process for routine matters in order to free up the board's time for other matters of strategic importance.

BOARD COMPOSITION

The *Bank Act* provides that no more than two-thirds of the directors may be "affiliated" with the bank. "Affiliated" persons include an officer or employee; a significant borrower; a person who controls or is an officer or employee of a significant borrower; a person who is an officer, partner or employee of, or has a substantial investment in, a partnership or company that provides goods or services to Royal Bank and whose annual billings to the bank exceed 10% of its total annual billings; a person whose loan from Royal Bank is not in good standing or who is a director, officer or employee of, or controls, an entity whose loan is not in good standing; and a spouse of any person who is "affiliated". Currently, less than one-third of the directors are "affiliated" with Royal Bank.

The Stock Exchange Guidelines state that a majority of directors should be "unrelated", as that term is defined in

the Guidelines. In applying the principles underlying this definition, the Board of Directors made the determination that each director who is "affiliated" (as defined in the *Bank Act*) with Royal Bank would be considered to be "related" for the purpose of the Stock Exchange Guidelines. The Committee also made the determination that the former Chairman and Chief Executive Officer of the bank would be considered to be "related" for a period of at least two years following his retirement date. With respect to the other directors who are not "affiliated", the Corporate Governance Committee, on behalf of the Board of Directors, applied the principles underlying the definition of "unrelated" to the circumstances of each of those directors, and in each case made an assessment as to whether the director was "unrelated" or "related". Based on the results of this analysis, the Board of Directors has concluded that a majority of its directors are "unrelated".

BOARD EFFECTIVENESS

The Corporate Governance Committee manages the corporate governance system of Royal Bank, including the methods and processes for board effectiveness, and monitors the nature and format of information provided to the Board of Directors by management. The committee also reviews periodically the effectiveness of the Board of Directors and assesses, against selected criteria, the performance of individual directors standing for re-election. The mandate of the Corporate Governance Committee is more fully discussed below.

CONFLICT OF INTEREST/RELATED PARTY TRANSACTIONS

The *Bank Act* and the Board of Directors itself impose requirements on the directors regarding conflicts of interest and related party transactions. Statutory provisions require directors to disclose their interest in and refrain from voting in respect of material contracts with Royal Bank. In addition, directors and entities in which directors and their immediate families have substantial investments are "related parties" for the purposes of the *Bank Act*.

Transactions with “related parties” are subject to a comprehensive set of rules and are monitored and reviewed by the Conduct Review Committee of the board.

DIRECTOR ORIENTATION PROGRAM

An ongoing orientation program has been developed for all directors, with a focus on the corporate governance system, including roles, responsibilities and liabilities of directors. Each new director of the bank is presented with a Director’s Guide and has an opportunity to meet with senior management to discuss the business functions and principal activities of Royal Bank group. Special seminars on specific issues relating to banking and the financial services industry environment are provided to directors on a periodic basis.

SIZE OF THE BOARD

The size of the Board of Directors reflects the business need for strong geographical, professional and industry sector representation. At the same time, the Board of Directors feels that the number of directors should be kept sufficiently low to facilitate open and effective dialogue. The Board of Directors has therefore adopted a goal to reduce the size of the board from the current level of 30 directors to the mid-twenties. This goal will be achieved through normal attrition over the medium term.

CHAIRMAN AND

CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are combined in Royal Bank. This is consistent with general practices within the banking industry in North America. This has the advantage of the Chairman of the Board of Directors having a more detailed knowledge of the business and activities of Royal Bank group than would be possible in the case of a non-executive Chairman. The Board of Directors believes that the separation of the two offices is not necessary in order for the board to act independently of management and that the benefits of a separation of the positions can be achieved through an effective corporate governance system.

At Royal Bank, the corporate governance system includes the Chairman of the Corporate Governance Committee serving as an informal liaison among the directors, and between the board and senior management, on corporate governance matters. As well, following meetings of the Board of Directors, the Chairman of the Corporate Governance Committee chairs meetings of non-management directors at which any concerns may be freely expressed. Board policy permits no more than two officer-directors, and an officer-director may not serve as a member of a committee of the board.

BOARD AUTHORITY AND DELEGATION

The Board of Directors has passed a resolution that deals with authorities and delegations of authority within the organizational structure of Royal Bank group. In addition to those matters that must by law be approved by the Board of Directors, the directors have reserved approval for certain matters to the board or the appropriate committee of the board and have delegated responsibility for certain others to management.

ENGAGEMENT OF OUTSIDE ADVISOR

The board has adopted a policy that enables an individual director to engage an outside advisor at the expense of the bank with the authority of the Chairman of the Corporate Governance Committee or the Chairman and Chief Executive Officer.

SHAREHOLDER FEEDBACK

Royal Bank maintains an investor and shareholder relations department which the Board of Directors believes is important and highly effective in responding to investor inquiries and concerns. Every shareholder inquiry receives a prompt response from the department or an appropriate officer of Royal Bank. Members of senior management also meet periodically with financial analysts and institutional investors.

BOARD COMMITTEES

Set out below are descriptions of the mandates of the board committees.

Each committee is composed entirely of outside directors, and a majority of the directors on each committee are “unaffiliated” and “unrelated”.

AUDIT COMMITTEE

CHAIRMAN: J.R. Evans

MEMBERS: Sir James Ball,
R.M. Chipman, L.Y. Fortier,
A.R. Haynes, G.W.F. McCain,
R.A. Pfeiffer, Jr.

The Audit Committee reviews matters that are prescribed by the *Bank Act*, including annual and quarterly statements, returns specified by the Superintendent of Financial Institutions, and investments and transactions that could adversely affect the well-being of Royal Bank. It also establishes and monitors procedures to resolve conflicts of interest, for disclosure of information to customers, and for dealing with complaints. The Committee may, within limits prescribed by the Board of Directors, authorize and approve issues of subordinated indebtedness of the bank.

The Audit Committee, through meetings with the shareholders’ auditors, the chief internal auditor of Royal Bank and senior management, monitors the effectiveness of the internal control procedures and information systems established for the bank. The Committee is apprised on a periodic basis by senior management of measures implemented at Royal Bank to ensure compliance with the Canada Deposit Insurance Corporation (“CDIC”) Internal Control Standards, which includes guidelines on information technology controls, valuation policies and procedures, safeguarding controls, accounting and record keeping controls, management information systems, and independent inspections and audits. The Committee also reviews and approves policies related to interest rate risk management, liquidity management, foreign exchange risk management and capital management as provided for in the related CDIC Standards. It also reviews and approves the Standards Assessment and Reporting Program concerning adherence to these CDIC Standards.

CONDUCT REVIEW COMMITTEE

CHAIRMAN: C.S. Malone
MEMBERS: T.M. Allen, R.L. Cliff,
J.T. Ferguson, C.H. Knight,
R.B. Peterson, K.C. Rowe

The Conduct Review Committee ensures that procedures are established to review transactions with "related parties" of Royal Bank; ensures that these transactions meet market terms and conditions; and reviews the practices of the bank to ensure that any of these transactions having a material effect on the stability or solvency of the bank are identified.

CORPORATE GOVERNANCE COMMITTEE

CHAIRMAN: A.R. Haynes
MEMBERS: R.L. Cliff, P. Des Marais II,
L.Y. Fortier, P. Gauthier, D.R. McKeag,
R.T. Stewart, J.A. Tory

The Corporate Governance Committee has responsibility for identifying, evaluating and recommending nominees for the Board of Directors, in consultation with the Chairman and Chief Executive Officer. Nominees for the board are selected on the basis of individual attributes, including sound business judgment, integrity, ability to generate public confidence, business or professional activity and experience, international experience, knowledge of local, national and international issues, residency and familiarity with a geographic region relevant to the bank's strategic priorities.

The Committee reviews annually the credentials of each nominee for re-election as a member of the Board of Directors, considering his or her continued qualification as a director under applicable laws, the continued validity of the credentials underlying the appointment of the director, and an evaluation of the effectiveness and performance of the director. The Committee also assesses the performance of the Board of Directors as a whole, including the committees of the board. This assessment is based partly on the results of questionnaires completed by each director on a periodic basis.

The Committee monitors and makes recommendations regarding the effectiveness of the system of corporate governance at Royal Bank, including the board program, mandates of board committees, and policies governing size and composition of the board. The Committee also reviews the amount and the form of compensation of directors from time to time and makes recommendations to the Board of Directors for appropriate adjustments.

HUMAN RESOURCES COMMITTEE

CHAIRMAN: J.E. Newall
MEMBERS: D.R. McKeag,
R.B. Peterson, R.A. Pfeiffer, Jr.,
R.T. Stewart, J.A. Tory, V.L. Young

The Human Resources Committee is responsible for reviewing and approving on an annual basis a statement of principles and objectives relating to the recruitment of qualified and competent persons as employees, and the training, compensation and evaluation of employees; reviewing at regular intervals the management succession plans for the executive officers of Royal Bank; reviewing the major compensation policies of Royal Bank; recommending to the Board of Directors the remuneration of the Chief Executive Officer, the Vice-Chairmen, and certain other senior executive officers of Royal Bank group; reviewing the bank's pension plan performance; and recommending to the Board of Directors all executive short and long term incentive compensation programs. The Committee is also responsible for the selection process for the Chief Executive Officer of Royal Bank and for evaluating annually the performance of the Chief Executive Officer.

PUBLIC POLICY COMMITTEE

CHAIRMAN: G. Saint-Pierre
MEMBERS: G.A. Cohon, G.N. Cooper,
M.S. Dobrin, J.T. Ferguson,
P. Gauthier, A.R. Taylor, V.L. Young

The Public Policy Committee reviews policies designed to create a positive and cohesive corporate image of the bank, and to ensure that the bank is discharging its social responsibilities effectively. The Committee oversees the bank's

corporate contributions policies and its communications policy, including processes for communicating with customers, employees and shareholders.

RISK POLICY COMMITTEE

CHAIRMAN: C.S. Malone
MEMBERS: T.M. Allen, R.L. Cliff,
J.T. Ferguson, C.H. Knight,
R.B. Peterson, K.C. Rowe

The Risk Policy Committee establishes lending and investment policies, standards and procedures; monitors significant concentrations of risks across a number of portfolio dimensions; reviews and monitors the application of credit policies to ensure prudent credit risk management; reviews loans with director involvement; reviews and approves policies related to credit risk management and securities portfolio management; reviews real estate appraisal policies in accordance with the CDIC Standards; and reviews and approves the Standards Assessment and Reporting Program concerning adherence to the CDIC Standards.

STRATEGIC ADVISORY COMMITTEE

CHAIRMAN: J. Bougie
MEMBERS: G.A. Cohon,
E.P. Loughheed, C.S. Malone,
J.E. Newall, A.R. Taylor,
S.D. Whittaker

The Strategic Advisory Committee acts in an advisory capacity to management in the review of the strategic direction and plans of Royal Bank that are presented to the Committee by management from time to time. The Committee also advises management in the planning of the annual strategic meeting attended by the directors and senior management.

GROUP OFFICE

JOHN E. CLEGHORN
Chairman
& Chief Executive Officer
Toronto

J. EMILIEN BOLDUC
Vice-Chairman &
Chief Financial Officer
Montreal

GORDON J. FEENEY
Vice-Chairman
Toronto

ANTHONY S. FELL
Chairman &
Chief Executive Officer
RBC Dominion Securities Inc.
Toronto

BRUCE C. GALLOWAY
Vice-Chairman
Toronto

ROBERT J. SUTHERLAND
Vice-Chairman
Toronto

BUSINESSES**BUSINESS BANKING**

CHARLES S. COFFEY
Executive Vice-President
Toronto

GEORGE A.A. DICKSON
Senior Vice-President
Product Management
Toronto

ED J. LUNDY
Senior Vice-President
Toronto

R. DOUG WILLIAMSON
Senior Vice-President
Market Management
Toronto

DEBORAH J. BEST
Vice-President
Real Estate Banking
Toronto

DON E. BLUE
Vice-President
Payroll Technologies
Toronto

W. DOUG CHEYNE
Vice-President
Special Loans
Toronto

LEO J. COULAS
Vice-President
Real Estate Banking
Toronto

COLLIN R. GAETZ
Vice-President
Human Resources Advisor
Toronto

RICHARD S. GRANT
Vice-President
Real Estate Banking
Toronto

ROBERT G. HEISZ
Vice-President
Commercial Mortgages
Toronto

BRUCE M. JONES
Vice-President
Planning, Marketing &
Network Management
Toronto

JONATHAN R. LEGG
Vice-President
Financial Advisory Services
Toronto

JOHN J. MURPHY
Vice-President
Agricultural Banking
Services – Canada
Winnipeg

HERB I. PHILLIPPS (JR.)
Vice-President
Product Research
Toronto

JACQUES SAYEGH
President
RB Capital Corporation
Toronto

SUSAN M. SMITH
Vice-President
Knowledge-Based Industries
Toronto

ANNE L.B. SUTHERLAND
Vice-President
Small & Medium Enterprises
Toronto

JOHN A. WILLIAMS
President &
Chief Executive Officer
Smart Health Inc.
Winnipeg

CARD SERVICES

BOB M. JUNEAU
Senior Vice-President
Toronto

JANE S. FERSHKO
Vice-President
Cardholder Services
Toronto

**FINANCIAL INSTITUTIONS
AND TRADE**

JIM T. RAGER
Senior Vice-President
Toronto

ALAN A. BOWBYES
Vice-President
Correspondent Banking
Toronto

ROBIN B. GRAY
Vice-President
Trade, Canada
Toronto

BERNARD L. KRUYNE
Vice-President
Structured Trade
Toronto

G. ALAN McNISH
Vice-President
Trade, Operations
Toronto

DAVID S.E. NOBLE
Vice-President
Non-Bank Financial
Institutions
Toronto

INSURANCE

RBC Insurance Holdings Inc.

W. JAMES WESTLAKE
President &
Chief Executive Officer
Brampton

DAVID R. COOPER
Senior Vice-President
Brampton

ART L. CHAROW
Vice-President &
Chief Financial Officer
Brampton

W. MICHAEL WILSON
Vice-President
Corporate Development
Brampton

MULTINATIONAL BANKING

BERNIE SCHRODER
Executive Vice-President
Toronto

JANICE R. FUKAKUSA
Senior Vice-President
Financial Services
Toronto

WALTER MURRAY
Senior Vice-President
Multinational Canada
Toronto

GERRY B. CETKOVSKI
Vice-President
Relational Accounts (Toronto)
Toronto

DAVID J. DIXON
Vice-President
Corporate Finance &
Loan Syndications
Toronto

MARK R. HUGHES
Vice-President
Public Sector
Toronto

MARC A. PIGNARD
Vice-President
Portfolio Management
Toronto

STEPHEN W. WALKER
Vice-President
Asset Management
Toronto

MUTUAL FUNDS

Royal Mutual Funds Inc.

SIMON LEWIS
President
Toronto

JOHN W. LIGHTFOOT
Vice-President
Training
Toronto

SAM PALUMBO
Vice-President
Mutual Fund Sales
Toronto

**PERSONAL FINANCIAL
SERVICES**

GEORGE F. GAFFNEY
Executive Vice-President
Toronto

ED Y. BOUGARD
Senior Vice-President
Deposits
Montreal

JUDITH M.S. HATLEY
Senior Vice-President
Sales
Toronto

ANNE LOCKIE
Senior Vice-President
Marketing & Planning
Toronto

PAT A. PALMER
Senior Vice-President
Customer Delivery & Quality
Toronto

MIKE A. BASTIAN
President &
Chief Executive Officer
Royal Bank Action Direct Inc.
Richmond Hill

PETER A. CASE
Vice-President
Advertising
Toronto

ALBERTA G. CEFIS
Vice-President
Personal Credit Services
Montreal

KATHY L. COOPER
Vice-President
Personal Banker Support
Toronto

BARBARA J. HAIRE
Vice-President
Affluent Client Project
Toronto

WENDY L. MCGREGOR
Vice-President
Foreign Exchange Services
Toronto

LINDA J. SINCLAIR
Vice-President
Human Resources Advisor
Toronto

WENDY WYNN
Vice-President
Telephone Banking
Toronto

RESIDENTIAL MORTGAGES

ELISABETTA BIGSBY
Senior Vice-President
Montreal

TRADING

PAUL A. TAYLOR
Executive Vice-President
Toronto

IAN A. MacKAY
Senior Vice-President
Trading
Americas
Toronto

J. DAVID GIBBINS
Vice-President
Foreign Exchange
Toronto

PETER GRIERSON
Vice-President
Operations, Systems &
Technology
Toronto

LEE KACHROO
Vice-President
Capital Markets
Toronto

BRYAN K. OSMAR
Vice-President
Money Markets
Toronto

RICHARD J. SANKEY
Vice-President
Treasury – Americas
Toronto

ROYAL TRUST

TONY A. WEBB
President &
Chief Executive Officer
Toronto

GREG R. BRIGHT
Senior Vice-President
Wealth Management
Toronto

DAVID W.S. DUNLOP
Senior Vice-President
Global Securities Services
Toronto

LAURENT M. JOLY
Senior Vice-President
Global Private Banking
Toronto

JIM D. BRETHOUR
Vice-President
Risk Management
Toronto

WILLIAM L.C. COOKE
Regional Vice-President
Vancouver

JAMES G. DENT
Regional Vice-President
Central Ontario
Toronto

JOHN R. DORKEN
Regional Vice-President
Eastern Ontario
Ottawa

RONALD M. FOSS
Vice-President
Sales & Service
Toronto

ROBERT B. HAMILTON
Regional Vice-President
South Alberta
Calgary

GLENN A. HICKLING
Vice-President &
Chief Financial Officer
Toronto

ANSEL E. HOLDER
Vice-President
Human Resources Advisor
Toronto

TERRY A. JENKINS
Vice-President
Western Ontario
London

RICHARD R. MARTIN
Regional Vice-President
Quebec
Montreal

NORMA J. MAYER
Vice-President
Pensions & Insurance
Toronto

PETER F. MacKENZIE
Vice-President
Canada
Toronto

IVOR E.R. MILLS
Regional Vice-President
Victoria

TIM M. NELSON
Vice-President
Global Plus Project
Toronto

TOM C. SEARS
Managing Director
Global Custody
London

MARY C. TAYLOR
Vice-President
Sales & REL Management
Toronto

SCOTT C. WEYMAN
Vice-President
Latin America, Caribbean &
U.S.A., Miami

ROYAL TRUST INVESTMENT MANAGEMENT

B. LEE BENTLEY
President & C.E.O.
Toronto

MARK L. ARTHUR
President & Chief Investment
Officer
Royal Bank Investment
Mgmt Inc.
Toronto

TIMOTHY K. GRIFFIN
President
RT Capital Management
Toronto

RBC DOMINION SECURITIES INC.

ANTHONY S. FELL
Chairman &
Chief Executive Officer
Toronto

BRYCE W. DOUGLAS
Deputy Chairman
Toronto

W. REAY MACKAY
President &
Chief Operating Officer
Toronto

RBC DOMINION SECURITIES CORPORATION

GORDON M. RITCHIE
President &
Chief Executive Officer
New York

RBC DOMINION SECURITIES INTERNATIONAL LIMITED

COLIN STURGEON
Managing Director
London

RBC DOMINION SECURITIES INC. TOKYO REPRESENTATIVE OFFICE

TAKASHI OHTAKE
Vice-President & Director
Tokyo

GEOGRAPHIES – CANADA

ALBERTA

DAVID N. KITCHEN
Senior Vice-President &
General Manager
Calgary

BILL B. BERVEN
Vice-President
Alberta North
Edmonton

CHRIS L. FONG
Vice-President
Oil & Gas/Business Banking
Calgary

BRUCE A. MacKENZIE
Vice-President
Alberta South
Calgary

PATRICIA J. McLAREN
Vice-President & Area
Manager
Calgary Central
Calgary

NORMAN D. TOWER
Vice-President
Risk Management
Calgary

ATLANTIC

CLAY J. COVEYDUCK
Senior Vice-President &
General Manager
Halifax

W. JOE GILLIS
Vice-President
Nova Scotia & P.E.I.
Halifax

IAN R. McFADDEN
Vice-President
Business Banking
Metro Halifax/Dartmouth
Halifax

KIT E. PAYN
Vice-President
New Brunswick
& Area Manager
Saint John
Saint John

D. SAM WALTERS
Vice-President
Newfoundland & Labrador
& Area Manager
St. John's
St. John's

BRITISH COLUMBIA & YUKON

ROD S. PENNYCOOK
Senior Vice-President &
General Manager
Vancouver

RON J.J. CATHCART
Vice-President
Risk Management
Vancouver

GORDON D. HAWKE
Vice-President
Multinationals
Vancouver

BRAD H. LAMBERT
Vice-President
Business Banking
Vancouver

H. ANNE LIPPERT
Vice-President &
Area Manager
Vancouver Downtown/West
Vancouver

CHARLIE S. MILBURY
Vice-President
Vancouver

J. BRIAN REYNOLDS
Vice-President &
Area Manager
Greater Victoria
Victoria

ART E. ROBIN
Vice-President &
Area Manager
B.C. North & Yukon
Prince George

MIKE K. TAYLOR
Vice-President
Business Banking
Vancouver

MANITOBA

DENNICE M. LEAHEY
Senior Vice-President &
General Manager
Winnipeg

BILL D. BANNISTER
Regional Vice-President
Winnipeg

HARRY O. BENSER
Vice-President
Business Banking
Winnipeg

METROPOLITAN TORONTO

A. ROGER CREASOR
Senior Vice-President &
General Manager
Toronto

GORDON C. APPLETON
Vice-President
Business Banking
Metro West

BLAIR L. BOYD
Vice-President
Vaughn/York Region

NOEL V. CURRAN
Vice-President
Corporate Accounts
Business Banking

GERRY M. GARTNER
Vice-President
Business Banking
Central Toronto/North York

JENNY L. GOULD
Vice-President
Scarborough/Durham Region

DONALD A.B. GRAHAM
Vice-President
Risk Management
Metro Toronto

JACK R. KLASSEN
Vice-President
Personal Financial Services
Metro West

ROSS A. McDONALD
Vice-President
Business Banking
Toronto Core

WALTER T. MOODIE
Vice-President
Real Estate Markets
Business Banking

JENNIFER A. TORY
Vice-President
Personal Financial Services
Central Toronto/North York

JACKIE L. TUFFIN
Vice-President
Personal Financial Services
Toronto Core

ONTARIO

(OUTSIDE TORONTO)

PAM G. PITZ
Senior Vice-President &
General Manager
Burlington

CHARMAINE A. AUBUT
Vice-President
Personal Financial Services
Golden Horseshoe
Burlington

D'ARCY A. DELAMERE
Vice-President
Sales & Service
Burlington

JAKE DRIEDGER
Vice-President
Risk Management, Ontario
Burlington

ROGER C. FRENCH
Vice-President & Manager
Business Banking Centre
Burlington

MORTEN N. FRIIS
Vice-President & Manager
Business Banking Centre
Ottawa

GORDIE T. MacKENZIE
Vice-President
London & Area
London

FRANK L. McAULEY
Vice-President
Personal Financial Services
West & Northwest
Burlington

DOUG R. McLENNAN
Vice-President
Personal Financial Services
East & Northeast
Burlington

E. GAY MITCHELL
Vice-President
Business Banking
Burlington

MIKE F. PHELAN
Vice-President & Manager
Ottawa Centre Area
Ottawa

BOB F.M. SMITH
Vice-President & Manager
Business Banking Centre
Kitchener

QUEBEC

BUSINESS BANKING

MICHAEL L. TURCOTTE
Senior Vice-President
Montreal

JOHN P. BÉLAND
Vice-President
Multinational & Public Sector
Montreal

JACQUES J. BERGERON
Vice-President
Risk Management
Montreal

GEORGES R. BERNARD
Vice-President
Business Banking
Quebec East
Quebec City

MARTIN BLOOM
Vice-President
Business Banking
Quebec West
Montreal

M.A. RÉAL MIMÉAULT
Vice-President & Manager
Business Banking
Downtown Montreal
Montreal

DUARTE M. MIRANDA
Vice-President
International Trade, Quebec
Montreal

CLAUDE J.G. SABOURIN
Vice-President
Marketing
Montreal

PERSONAL FINANCIAL SERVICES

J.A. ROLAND GUAY
Senior Vice-President
Montreal

JEAN-MARC M. DE MONDEHARE
Vice-President &
Area Manager
Quebec City

SAM L. DONOFRIO
Vice-President
Marketing
Montreal

MARIE R. LACROIX
Vice-President &
Area Manager
Montreal Downtown
Montreal

JACQUES D.J. SPENCER
Vice-President
Quebec West
Montreal

SASKATCHEWAN

GORD G. TALLMAN
Senior Vice-President &
General Manager
Regina

DAVE F. DARLING
Vice-President
Saskatchewan North & West
Area Manager
Saskatoon

BARRIE C. STEWART
Vice-President
Saskatchewan South East
Area Manager
Regina

All of the officers of the bank have been engaged for more than five years in various capacities in the affairs of the bank, Royal Trust and their affiliates except J.D. Brethour, who prior to September 1992 was Vice-President, Retail Lending, National Trust, Toronto; B.P. Davies, who prior to May 1994 was Vice-president, Business Affairs & Chief Administration Officer, University of Toronto; R.G. Heisz, who prior to June 1992 was Vice-president, Mortgages Lending, National Trust, Toronto; S.B. Labarge, who prior to April 1995 was Deputy Superintendent, Deposit-Taking Institutions Sector, Office of the Superintendent of Financial Institutions, Ottawa; J.A. Lamont, who prior to August 1995 was Director, Policy Support, Office of the Superintendent of Financial Institutions, Toronto; M.F. Leroux, who prior to July 1995 was a Partner & Associate with Caron, Belanger, Ernst & Young, Montreal; R.R. Martin, who prior to March 1991 was President & Chief Executive Officer, Capital Trust, Montreal; J. McCallum, who prior to June 1994 was Dean, Faculty of Arts, McGill University, Montreal; L.G. Moulds, who prior to August 1994 was President, Globe Realty Management Company, Toronto; H.M. Pearson, who prior to July 1993 was a Director General with the Federal Government, Ottawa; E.K. Weir, who prior to September 1993 was a Senior Partner with McMillan Binch, Toronto; W.J. Westlake, who prior to January 1995 was Vice-president & Chief Operating Officer, Metropolitan Life Insurance Company, Toronto; W.M. Wilson, who prior to August 1995 was a Vice-president with Metropolitan Life Insurance Company, Toronto; and W. Wynn, who prior to November 1993 was with Canadian Depository for Securities Limited, on secondment to the Canadian Group of Thirty Working Committee as Project Director.

GEOGRAPHIES – INTERNATIONAL

ASIA

J. PHIL W. BREWSTER
Senior Vice-President &
General Manager
Singapore

CHINA

R. WING MORSE
Vice-President &
General Manager
Shanghai

HONG KONG

STEPHEN R. KAMPERS
Vice-President &
General Manager
Hong Kong

TIM P. GIBBS
Vice-President
Global Private Banking
Hong Kong

JAPAN

BILL J. NOBLE
Vice-President &
General Manager
Tokyo

KOREA

BARRY LAMONT
Vice-President &
General Manager
Seoul

SINGAPORE

GERALD J. LIPMAN
Vice-President
South East Asia &
General Manager
Singapore

NARESH KARNICK
Vice-President
Risk Management, Asia
Singapore

TAIWAN

D. BOYD TOPHAM
Vice-President &
General Manager
Taipei

CARIBBEAN

BAHAMAS & CAYMAN ISLANDS

DAVID C. GALE
Vice-President
Nassau, Bahamas

BARBADOS & EASTERN CARIBBEAN

C. DOUG MALONEY
Vice-President
Bridgetown, Barbados

EUROPE

RONALD E. STANLEY
Senior Vice-President &
General Manager
London

MARTIN G. KLINGSICK
Senior Vice-President
Trading – Europe/Asia
London

PHIL M. CUTTS
Vice-President
Finance & Administration
London

STEPHEN R. DOUGLAS
Vice-President
Multinational
London

S. GUY A. SCAMMELL
Vice-President
Financial Institutions & Trade
London

CHANNEL ISLANDS

TIM J. BETLEY
Vice-President
Global Private Banking
Guernsey

MICHAEL J. LAGOPOULOS
Vice-President
Global Private Banking
Jersey

SWITZERLAND

TOM H. EMCH
Vice-President
Global Private Banking
Switzerland & Austria
Geneva

GERMANY

PAUL W. SMITH
Vice-President
Multinational – Germany,
Central/Eastern Europe
Frankfurt

FRANCE

HUGUES A. DE GUITAUT
Vice-President &
General Manager
RBC Europe Ltd.
Paris

TREASURY

DAVID J. BARNETT
Vice-President
Trading
London

JOHN W. BURBIDGE
Vice-President
Treasury Operations
Europe & Asia
London

GRAHAM M. McDONALD
Vice-President
Corporate Services
Europe & Asia
London

MEXICO

PAUL FRISER-FREDERIKSEN
Vice-President
Mexico City

U.S.A.

DAVID L. ROBERTSON
Senior Vice-President &
General Manager
New York

JOHN R. GROVES
Vice-President
New York

DIEGO S. GIURLEO
Vice-President
New York

TOM L. GLEASON
Vice-President
New York

RAY S. CHANG
Vice-President
Chicago

BRIAN F. LEGG
Vice-President
Los Angeles

FUNCTIONS

CORPORATE AFFAIRS

BRYAN P. DAVIES
Senior Vice-President
Toronto

DAVID M. MOORCROFT
Vice-President
Public Affairs &
Corporate Communications
Toronto

BLAIR R. McROBIE
Vice-President
Corporate Contributions &
Executive Director
Charitable Foundation
Toronto

J. ANNE LAMONT
Vice-President
External & Government
Affairs
Toronto

CORPORATE SECRETARY

JANE E. LAWSON
Senior Vice-President &
Secretary
Montreal

GEORGES H. DESSAULLES
Vice-President
Corporate Compliance
Toronto

CORPORATE TREASURY

SUZANNE B. LABARGE
Executive Vice-President
Toronto

BRYAN P. GRIFFITHS
Senior Vice-President
Funding, Liquidity &
Portfolio Management
Toronto

DAVID W. DOUGHERTY
Senior Vice-President
Trading Risk Management
Toronto

GLENN C. BLAYLOCK
Vice-President
Liquidity & Funding
Toronto

C. HERVE LEUNG
Vice-President
Market Risk Analytics/Policy
Toronto

DAVID H. LOUCKS
Vice-President
Asset/Liability Management
Toronto

FINANCE

MONIQUE F. LEROUX
Senior Vice-President
Montreal

MICHAEL CONWAY
Vice-President &
Chief Accountant
Montreal

MIKE P. HARVIE
Vice-President
Corporate Businesses –
Finance
Toronto

NORMAN LIGHT
Vice-President
Finance
Montreal

TIM C. MORRIS
Vice-President
Taxation
Montreal

JOHN H. SHAW
Vice-President &
Comptroller
Montreal

ROBERT THOMAS
Vice-President
Financial Reporting
Montreal

REBECCA R. TREMBATH
Vice-President
O.R.S. Finance
Toronto

HUMAN RESOURCES

JIM J. GANNON
Senior Vice-President
Human Resource
Development
Toronto

PETER H. TUCKER
Senior Vice-President
Compensation &
Organization
Toronto

EILEEN V. BAIRD
Vice-President
Human Resources Advisor
Corporate Functions
Toronto

KEN W. ELSIE
Vice-President
Executive Resources
Toronto

JIM C. WALZ
Vice-President
Quality
Toronto

INTERNAL AUDIT SERVICES

JOHN MERRIAM
Senior Vice-President &
Chief Internal Auditor
Toronto

RICK G. COCHRANE
Vice-President
Business Banking &
Credit Risk Audit
Toronto

JIM HOLLAND
Vice-President
Information Technology
Audit
Toronto

OLIVIER H. LECAT
Vice-President
Treasury & Investment
Banking Audit
Toronto

BOYD C. MARSHALL
Vice-President
Finance & Accounting Audit
Toronto

LAW

TED K. WEIR
Senior Vice-President &
General Counsel
Toronto

SARAH J. AZZARELLO
Vice-President &
Associate General Counsel
Montreal

OMBUDSMAN

VERNE G. MCKAY
Senior Vice-President
Toronto

OPERATIONS & SERVICE DELIVERY

DON A. BERARDINUCCI
Executive Vice-President
Toronto

HAROLD E. ELSIE
Senior Vice-President
Operations
Toronto

PIERRE LEBRUN
Senior Vice-President
Network Planning &
Development
Toronto

ROBERT H. AYLWARD
Vice-President
Mondex
Stored Value Card
Toronto

AL M. BECKER
Vice-President
Implementation &
Operational Support
Toronto

MICHELINE LESSARD
Vice-President
Quebec Processing &
Operations Centre
Westmount

FRANK G. MACDONALD
Vice-President
Payments Policy
Toronto

BOB R. PELLETIER
Vice-President
Operational Initiatives
Toronto

SURESH G. THAKRAR
Vice-President
Process Reviews
Toronto

GRAHAM J. WESTERN
Vice-President
Ontario Processing &
Operations Centre
Toronto

REAL ESTATE OPERATIONS

RON A. MASLECK
Senior Vice-President
Toronto

LARRY G. MOULDS
Vice-President
Real Estate Operations
Toronto

BOB H. RIVIERE
Vice-President
Environmental Management
Systems
Toronto

RISK MANAGEMENT

MURRAY A. CORLETT
Executive Vice-President
Toronto

NORM C. ACHEN
Senior Vice-President
Toronto

BOB G. HALL
Senior Vice-President
Toronto

JOHN Mc CALLUM
Senior Vice-President &
Chief Economist
Toronto

GEZA P.Z. TATRALLYAY
Senior Vice-President
Risk Policy
Toronto

FRANCINE P. BLACKBURN
Vice-President
Market Risk Policy
Toronto

E.M. JANE DAVIS
Vice-President
Toronto

ERIC D. FERGUSON
Vice-President
Toronto

BRUCE H. FINDLAY
Vice-President
Toronto

KEN W. HARRISON
Vice-President
Toronto

MARY R. KELLER
Vice-President
Toronto

ROBYN J. KWIAT
Vice-President
Toronto

GIL M. LORENSON
Vice-President
Toronto

GRAHAM R. MACLACHLAN
Vice-President
Toronto

LINDA M. MURRER
Vice-President
Credit Policy
Toronto

MARY PREVOST
Vice-President
Toronto

RAY H. THORNTON
Vice-President
Toronto

FRED J. VANNI
Vice-President
Toronto

KURT A. VON DEM HAGEN
Vice-President
Portfolio Management
Toronto

STRATEGIC DEVELOPMENT

DON S. WELLS
Executive Vice-President
Montreal

GUY D. BÉLISLE
Vice-President
Montreal

HILARY M. PEARSON
Vice-President
Montreal

SYSTEMS & TECHNOLOGY

KEN A. SMEE
Executive Vice-President
Toronto

PAM A. ANDERSON
Vice-President
Business Planning &
Technology Management
Toronto

J. DOUG DIXON
Vice-President
Personal Banking Systems
Toronto

JOHN REITSMA
Vice-President
Computer & Network
Services
Toronto

JOHN K. TRUMAN
Vice-President
Corporate Business Systems
Toronto

MIKE H. VELSHI
Vice-President
Technology Planning &
Development
Toronto

DECEMBER 5, 1995

INCORPORATION

Royal Bank of Canada (the “bank”) is a Schedule I bank under the *Bank Act*, and the Act is its charter.

The head office is located at Royal Bank of Canada Building, 1 Place Ville-Marie, Montreal, Quebec, Canada.

PROPERTY

At October 31, 1995, the bank owned premises occupied by 528 branches and offices and leased premises occupied by 1,042 branches and offices. The bank also owns eight central processing centres across Canada and major office complexes in Toronto and Ottawa. At October 31, 1995, the net book value of land and buildings worldwide totalled \$946 million or 0.5% of total assets.

GOVERNMENT REGULATION

BUSINESS AND INVESTMENTS

Except as authorized under the *Bank Act* (Canada) (the “*Bank Act*”), a bank may not engage in any other business than the business of banking or such business generally as appertains to the business of banking. The business of banking includes the provision of any financial service, acting as a financial agent, providing investment counselling services and portfolio management services, and issuing payment, credit or charge cards and operating a payment, credit or other charge card plan.

Subject to specific exceptions, the *Bank Act* limits a bank to ownership of voting shares carrying 10% of the voting rights attached to all outstanding voting shares of a body corporate, and to 25% of the shareholders’ equity in any body corporate or 25% of the ownership interests in any other entity. The *Bank Act* permits controlling and, in certain circumstances, non-controlling investments in Canadian banks, trust or loan companies, insurance companies, cooperative credit societies, entities primarily engaged in dealing in securities (including portfolio management and investment counselling), in foreign institutions which are engaged in the trust, loan or insurance business, the

business of a cooperative credit society or the business of dealing in securities or otherwise engaged primarily in the business of providing financial services, and in factoring, financial leasing, specialized financing and financial holding corporations. The *Bank Act* also permits investment, in some cases only with the approval of the Minister of Finance of Canada (the “Minister”), in information services, investment counselling and portfolio management, mutual fund, mutual fund distribution, real property brokerage, real property and service corporations.

BANK SUPERVISION — CANADA

The Superintendent of Financial Institutions (the “Superintendent”) is responsible to the Minister for the supervision of both banks and federally regulated non-bank financial institutions. The Superintendent must, at least once a year, examine the affairs and business of each chartered bank for the purpose of determining whether the provisions of the *Bank Act* are being duly observed and that the Bank is in sound financial condition, and report to the Minister.

A bank must make periodic returns to the Minister and the Bank of Canada.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank, the Superintendent may direct a bank to refrain from a course of action or to perform acts necessary to remedy the situation. The *Bank Act* also gives the Superintendent the power, in certain circumstances, to take control of the assets of a bank.

The *Bank Act* requires a bank to maintain adequate capital and adequate and appropriate forms of liquidity and empowers the Superintendent to direct a bank to increase its capital or to provide additional liquidity. Regulatory capital requirements have been implemented through guidelines issued by the Superintendent.

The federal statute applicable to the Bank’s federally chartered loan and trust company subsidiaries, and certain provincial statutes applicable to these subsidiaries, apply capital adequacy, liquidity and investment standards to the global operations of these subsidiaries. These statutes also restrict transactions between loan and trust subsidiaries and related parties, including officers, directors, shareholders and affiliates. Other provincial statutes have varying degrees of application to subsidiaries engaged in dealing in securities.

BANK SUPERVISION — OUTSIDE CANADA

Outside Canada, the bank’s branches, agencies and subsidiaries are subject to the regulatory requirements of the jurisdictions in which they operate. The bank’s operations in the United States are regulated under U.S. federal and state law.

RESTRICTIONS ON SHARE OWNERSHIP AND VOTING

The *Bank Act* prohibits any person from having a “significant interest” in any class of shares of the bank, that is, from beneficially owning more than 10% of the outstanding shares of the class either directly or through controlled entities. The *Bank Act* also prohibits the registration of a transfer or issue of any shares of the bank to Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency.

The *Bank Act* prohibits any person from exercising voting rights attached to shares beneficially owned by Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or by the government of a foreign country or any political subdivision, agent or agency.

DOCUMENTS INCORPORATED BY REFERENCE

Additional items comprising the bank's annual information form are disclosed in portions of this Annual Report and are incorporated by reference as set out below.

ITEM	REFERENCE
Principal subsidiaries	page 86
General development of the business	page 9
Narrative description of business and competitive conditions	pages 10-22
Non-accrual loans	Note 1, page 64; Table 16, page 44
Interest income from non-accrual loans	Note 4, pages 68-69
Restructured loans	Note 4, pages 68-69
Foreign loans	Table 14, page 42
Allowance for credit losses	Note 5, page 70
Mortgage operations	Table 3, page 28; Table 16, page 44; Table 18, page 46
Employees	page 3
Cash dividends	page 3; Note 11, page 73
Selected consolidated financial information	page 3
Quarterly financial information	page 84
Dividend policy	page 26
Management's discussion and analysis	pages 23-58
Market for securities of the bank	page 100
Directors	page 89
Officers	pages 93-97

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the bank's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the bank's comparative financial statements for the year ended October 31, 1995.

The bank will provide to any person, upon request to the Manager of Investor and Shareholder Relations at the bank's corporate headquarters, a copy of this annual information form and any documents incorporated by reference, a copy of the comparative financial statements for the year ended October 31, 1995 together with the accompanying report of the auditors, a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 1995, and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

CORPORATE HEADQUARTERS

STREET ADDRESS:
1 Place Ville Marie
Montreal, Quebec,
Canada
Telephone: (514) 874-2110
Fax: (514) 874-7197
Telex: 055-61086
Internet Address:
<http://www.royalbank.com/>

MAILING ADDRESS:
Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada, H3C 3A9

STOCK EXCHANGE LISTINGS
(Symbol: RY)
COMMON SHARES LISTED ON:
CANADA:
Montreal, Toronto, Vancouver,
Winnipeg and Alberta Stock
Exchanges
U.S.A.:
New York Stock Exchange
SWITZERLAND:
Basel, Geneva and Zurich
Stock Exchanges
U.K.:
London Stock Exchange

All Preferred shares, except Series C and D, are listed on the Toronto and Montreal Stock Exchanges. Preferred shares Series C and D are listed on the Alberta Stock Exchange.

Certain deposit notes and subordinated debentures are listed on the London and Luxembourg Stock Exchanges and are quoted on Reuters.

USUAL DIVIDEND DATES

	RECORD DATES	PAYMENT DATES
COMMON SHARES AND PREFERRED SHARES SERIES C, D, H, I, J AND K	Jan. 24 Apr. 24 Jul. 24 Oct. 24	Feb. 24 May 24 Aug. 24 Nov. 24
PREFERRED SHARES SERIES F AND G	Second week of Jan., Apr., Jul. and Oct.	Last trading day of Jan., Apr., Jul. and Oct.
PREFERRED SHARES SERIES E	Last trading day of each month	12th day of the following month

VALUATION DAY PRICE
For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is \$7.38 per share.

TRANSFER AGENT AND REGISTRAR
MAIN AGENT
Montreal Trust Company of Canada
MAILING ADDRESS:
P.O. Box 890,
Station "B"
Montreal, Quebec
Canada, H3B 3K5

STREET ADDRESS:
1800 McGill College Avenue
Montreal, Quebec
Canada, H3A 3K9
Telephone: (514) 982-7555
Fax: (514) 982-7635
Telex: 055-61286

CO-TRANSFER AGENTS (CANADA)
Montreal Trust Company of Canada

1465 Brenton St.,
5th Floor,
Halifax, N.S. B3J 3S9

151 Front Street W.
8th Floor
Toronto, Ont. M5J 2N1

Western Gas Tower
530 – 8th Avenue S.W.
6th Floor
Calgary, Alta. T2P 3S8

1778 Scarth Street
Regina, Sask. S4P 2G1

Mezzanine Level
200 Portage Avenue
Winnipeg, Man. R3C 3X2

510 Burrard Street
Vancouver, B.C. V6C 3B9

CO-TRANSFER AGENT (U.S.A.)
The Bank of New York
101 Barclay Street
New York, N.Y. 10286

CO-TRANSFER AGENT
(UNITED KINGDOM)
The Royal Bank of Scotland plc
Securities Services – Registrars
P.O. Box No. 82, Caxton House
Redcliffe Way, Bristol, England
BS99 7NH

INSTITUTIONAL INVESTOR, BROKER
AND SECURITY ANALYST CONTACT
Institutional investors, brokers and security analysts requiring financial information should contact the Manager, Investor and Shareholder Relations, by writing to the bank's corporate headquarters, or by calling (514) 874-5022 or by faxing (514) 874-7197.

SHAREHOLDER CONTACT
For change of address, shareholders are requested to write to the bank's transfer agent, Montreal Trust Company of Canada at their mailing address, and for dividend information and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555.

Other shareholder inquiries may be directed to our Shareholder Relations Department, by writing to the bank's corporate headquarters or by calling (514) 874-5012.

Shareholders may have their dividends deposited directly to a bank account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.

DUPLICATE ANNUAL REPORTS
While every effort is made to avoid duplication, if securities of the same class or series are registered in different names or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to Montreal Trust Company of Canada at their mailing address, so that arrangements may be made to avoid duplicate mailings.

ANNUAL MEETING
Shareholders are invited to attend Royal Bank of Canada's Annual Meeting of common shareholders to be held at 11:00 a.m. on March 6, 1996 at the Queen Elizabeth Hotel, Montreal, Quebec.

Information concerning Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the bank's corporate headquarters.

More than financial services....

Royal Bank is Canada's largest financial services group, serving some 10 million clients in Canada and around the world. But it's also a major corporate citizen whose presence and activities touch clients and communities in many other ways. Find out how Royal Bank Financial Group and its employees work with people in all walks of life to serve broader business and community needs. Plus, test your "economic quotient" and profit from valuable consumer tips.

To order, just mail in this card, or fax it to (514) 874-2539.

Please send me my free copy of *Royal Bank Financial Group Today*.

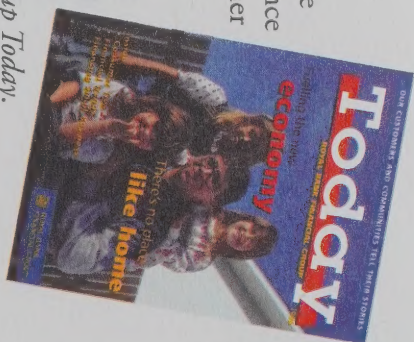
NAME: _____

ADDRESS: _____

CITY: _____

PROVINCE: _____

POSTAL CODE: _____



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is et en anglais

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Geneviève Côté

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Centre Typographique, Montreal

PRINTING:
Arthurs-Jones Inc.
Toronto

Legal Deposit, 4th quarter 1995
Bibliothèque nationale du Québec

Copies of the Annual Report are available from:
Royal Bank of Canada
Investor & Shareholder Relations
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9
Telephone: (514) 874-5841
Fax: (514) 874-7197

CORPORATE HEADQUARTERS

STREET ADDRESS:

1 Place Ville Marie
Montreal, Quebec,
Canada

Telephone: (514) 874-2110

Fax: (514) 874-7197

Telex: 055-61086

Internet Address:

<http://www.royalbank.com/>

MAILING ADDRESS:

Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada, H3C 3A9

STOCK EXCHANGE LISTINGS

(Symbol: RY)

COMMON SHARES LISTED ON:

CANADA:

Montreal, Toronto, Vancouver,
Winnipeg and Alberta Stock
Exchanges

U.S.A.:

New York Stock Exchange

SWITZERLAND:

Basel, Geneva and Zurich
Stock Exchanges

U.K.:

London Stock Exchange

All Preferred shares, except Series C and D, are listed on the Toronto and Montreal Stock Exchanges. Preferred shares Series C and D are listed on the Alberta Stock Exchange.

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PREFERRED SHARES SERIES F AND G	Second week of Jan., Apr., Jul. and Oct.	Last trading day of Jan., Apr., Jul. and Oct.
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VALUATION DAY PRICE

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is \$7.38 per share.

TRANSFER AGENT AND REGISTRAR MAIN AGENT

Montreal Trust Company of Canada

MAILING ADDRESS:

P.O. Box 890,
Station "T"
Montreal
Canada, H

STREET ADDRESS:

1800 McGill
Montreal, Q
Canada, H
Telephone:
Fax: (514) 9
Telex: 055-6

CO-TRANSFER AGENT

Montreal Trust

1465 Brenton
5th Floor,
Halifax, N.S.

151 Front Street
8th Floor
Toronto, Ont. M

Western Gas Transfer
530 – 8th Avenue
6th Floor
Calgary, Alta. T

1778 Scarth Street
Regina, Sask. S4L

Mezzanine Level
200 Portage Avenue
Winnipeg, Man. R

510 Burrard Street
Vancouver, B.C. V

CO-TRANSFER AGENT

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

CO-TRANSFER AGENT (UNITED KINGDOM)

The Royal Bank of Scotland plc
Securities Services – Registrars
P.O. Box No. 82, Caxton House
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INSTITUTIONAL INVESTOR, BROKER

AND SECURITY ANALYST CONTACT

Institutional investors, brokers and security analysts requiring financial information should contact the Manager, Investor and Shareholder Relations, by writing to the bank's corporate headquarters, or by calling (514) 874-5022 or by faxing (514) 874-7197.

**Royal Bank
Public Affairs
1 Place Ville Marie
7th Floor West Wing
Montreal, Quebec
H3B 4A7**

ANNUAL MEETING

Shareholders are invited to attend Royal Bank of Canada's Annual Meeting of common shareholders to be held at 11:00 a.m. on March 6, 1996 at the Queen Elizabeth Hotel, Montreal, Quebec.

Information concerning Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the bank's corporate headquarters.

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